

★ NEW UNCERTAINTIES CONFRONTING MARKET ★

BUSINESS AND ECONOMICS

The MAGAZINE *of* WALL STREET

and BUSINESS ANALYST

JUNE 17, 1961

85 CENTS

**RATIONALIZING
THE FREEDOM (TO SPEND)
DOCTRINE**

By PAUL J. HAYES

★
**GAUGING
THE BUSINESS OUTLOOK**

By Company Backlogs

New Orders — and Investments

By WILLIAM H. HARRIS

★
**BRINGING BASIC
INDICATORS UP-TO-DATE**

By JOHN

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*Special Studies
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NATURAL GAS INDUSTRY

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**IS RUN-UP IN LIQUORS
PURELY SEASONAL?**

By RALPH COX

★

**Is Huge VARIETY CHAIN
Replaces DISCOUNT FIELD**

★
**CANADIAN ECONOMY TODAY
WHERE IS IT HEADED?**



Young Capitalist



Instead of a
new bike,
one share of stock

The work-stained young man is Raymond Richmond of Pittsburgh, Pennsylvania.

He's a 9th grader at Andrew Mellon Junior High, a member of the school's track team, Life scout—and one of Union Oil's over 65,000 share-holders.

He purchased a share of Union Oil stock out of money he earned from baby-sitting, washing cars, mowing lawns and clearing driveways of snow.

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So long as we are free to compete—while serving the best interest of our country and customers—Raymond Richmond's and Union Oil's futures are unlimited.

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76

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Photo page 352—Courtesy UPI

Cartoon page 353—with apologies to N.Y. Herald Tribune

Chart page 359—Adapted from First Nat. City Bank chart

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-1960- Greatest Year In Our History

Last year, Mountain Fuel Supply Company recorded new highs in sales, earnings, dividends and number of customers.

Highlights of 1960

(and comparison with 1959)

Gas sales	1960	1959
(billions of cubic feet).....	81.6	69.6
Total gas revenues.....	\$33,490,693	\$28,528,855
Net income.....	\$ 4,085,634	\$ 3,871,619
Net income per share.....	\$1.67	\$1.77
Dividends per share.....	\$1.25	\$1.20
Book value per share.....	\$20.06	\$19.44
Number of customers.....	173,524	165,663

Dividends have been paid each year since its organization in 1935. Listed on New York Stock Exchange — Symbol MFS.

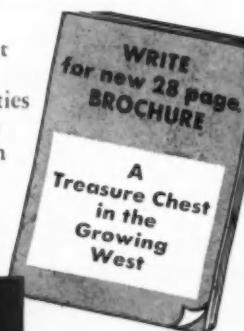
1960 Annual Report will be sent upon request. Address: Secretary, Mountain Fuel Supply Company, P. O. Box 899 Salt Lake City 10, Utah



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in a Growing West

UNITED STATES LINES COMPANY



3%
Stock
DIVIDEND

The Board of Directors has declared an extra dividend payable July 7, 1961, in shares of common stock amounting to three per cent (3%) of the common stock registered in the name of each stockholder of record June 14, 1961.

THOMAS R. CAMPBELL, Secretary
One Broadway, New York 4, N. Y.



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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, Editor-Publisher



The Trend of Events

WHAT IS GOING ON—AND WHAT DOES IT MEAN? . . .

Unless something is done to clarify the anti-trust situation, a broad business recovery is likely to be stymied, since no business executive today knows where he stands.

When he adjusts himself to one situation, another crisis is thrust upon him. And the multiplicity of the individual anti-trust cases for one reason or another leave him wondering whether it will be his turn next, and on what ground. Whether such action may be brought on the charge of so-called price-fixing—or again it might be on restraint of competition—creating a monopoly through mergers—or any one of a dozen different grounds.

But according to today's papers, something new has been added by the ruling of the Justice Department to permit the merger between Standard Oil of Kentucky and Standard Oil of California, with the latter taking the place of Jersey as the major supplier of petroleum products in the markets of five southern states — Florida — Georgia — Alabama — Kentucky — Mississippi.

This decision in favor of California breaks into a long-term agreement which Jersey has had, to supply Kentucky with their petroleum products, and completely cuts Jersey out of this southern market, destroying competition, which is supposed to be the

heart of the various Federal suits!

We find this situation contradicts the aims set forth by the government. Indeed, it looks more like just one additional step in a concerted attack against large corporations, and it becomes very puzzling indeed in the light of the government's proclaimed policy to attain a high level of growth in our economy. Instead, as must be clear to any thinking individual, these tactics can only disorganize and discourage management in its effort to reach the new goals of progress urged upon us by the Administration.

At the same time, it seems that no consideration whatever has been given to the stockholders who have invested their savings in these companies, and who can suffer severe loss as a result of the uncertainty this situation creates regarding the security of the companies involved.

It is also bound to affect the capital market, upon which our economic progress in the future will depend, and encourage speculation for the short-term in a market already suffering from the abuses that have been taking place.

This is clearly a situation that calls for the stockholders to take the bull by the horns and find out where they stand. To demand the protection they are entitled to by the government as citizens of these United States.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL and INVESTMENT COUNSELLORS: 1907 — "Our 54th Year of Service" — 1961



As I See It!

By Malcolm Stewart

WHY A FIGHT TO THE FINISH WITH COMMUNISM IS IN THE MAKING

PRESIDENT KENNEDY'S intensive talks in Vienna with Premier Khrushchev were extremely useful in one respect. They emphasized in stark detail the grim nature of the continuing struggle between Communist Imperialism and the Western World.

There no longer is any excuse for wishful thinking about the possibility that the Soviet leader may be persuaded to give some ground on critical issues to reach a more comfortable accommodation with the West.

This realization—if the lesson is taken to heart—should cut away a great deal of the underbrush of fuzzy thinking on the subject in this country and in some European countries.

The fact that Kennedy and Khrushchev were able to make no progress at Vienna toward settling a single one of the many East-West problems was not in itself cause for dismay. No one aware of the realities had expected even a slight breakthrough.

The chilling aspect of the talks was that Khrushchev, in addition to showing no "give" on previously known positions, finally slammed the door on the possibility of any nuclear test ban or disarmament agreements unless the United States surrenders to his terms.

And Khrushchev, during the discussions in the Soviet and American embassies in the lovely Austrian capital, appears to have re-lighted a slow fuse on the Berlin crisis.

Why then, against this somber background, did the Soviet Premier order his spokesmen to adopt a Pollyanna air of optimism regarding the results of the talks? Why did he tell them to describe the outcome as "fruitful" and hopeful for the future?

Khrushchev obviously went to Vienna determined beforehand to hail the results of his discussions with Kennedy, short of a complete blow-up, as hopeful, useful and indicative of progress.

Even when serving notice that he intended even-

tually to have his way on Berlin and Germany, even at the risk of war, he laid down no ultimatum. He set no deadline. He gave no indication that he intended to force the issue to crisis proportions within the near future.

American and European diplomatic experts, including Kennedy's top advisers, believe two major considerations motivated Khrushchev in his determination to avoid creating a crisis atmosphere at this time:—

► 1. He needs a "success" on the international front, no matter how intangible, to counter trouble at home where he has big agricultural problems and rumblings of discontent within the Presidium.

► 2. He does not want any big crisis on the foreign front before the October meeting in Moscow of the Communist Party, where he will again have to defend his policies against attacks by the Chinese Communists and others critical of his handling of the West.

The Kennedy-Khrushchev confrontation re-emphasized the salient fact that sometimes is lost sight of in the welter of headlines about Laos, Cuba, the Congo. This fact is that the hard core of East-West differences, the dispute beside which all others pale, concerns Berlin and Germany. This is the one issue over which all-out war appears possible.

● The Soviet and American chiefs tackled the Berlin-German issue at their final session in Vienna. It was a truly grim session. The fact that each spoke in dead level tones, with no raised voices nor invective, merely served to intensify the grimness of the discussion.

● Khrushchev reaffirmed his intention of signing —time unspecified—Russia's own peace treaty with Communist East Germany if the Allies would not get out of red-encircled West Berlin and agree to his terms for a general Germany treaty.

● But then he went on to say that the East Germans would be authorized to use force to block Allied access to Berlin—and the Soviet Union would support them. Any effort to crack the red blockade would be, Khrushchev warned, regarded as an act of “belligerency”. This was his flattest and most ominous declaration yet, on this aspect of the situation.

Kennedy's Answer

Kennedy replied equally frankly. He said the West would hold Russia responsible for guaranteeing the Allies' war-won rights in Berlin, no matter what kind of treaty Russia signed with East Germany. The West, Kennedy added, would use force to crack any blockade and get through to its garrisons in Berlin, which is 110 miles inside Communist East Germany.

► The President said any effort to interfere with Allied access to West Berlin would be regarded as an act of belligerency.

► There, in all its stark simplicity and terrible implications, was where they left the Berlin-German issue. But that was not all.

► Khrushchev demanded recognition of Soviet control over all the territories won during and after the second World War.

► Assurance of no interference by the U.S.A., United Nations or any other international grouping of nations, in the revolutionary upheavals now taking place in the non-communist world.

► And Khrushchev also demanded the dismantling of Western military bases and armed intervention to make it impossible for anyone to interfere with the “inevitable” process toward communization of uncommitted countries.

On other issues, the deadlock was equally tight. If Khrushchev meant what he said to Kennedy, there is little hope of lowering World tension.

Nuclear Test Ban — Khrushchev flatly refused to agree to a veto-free inspection system to police the treaty prohibiting nuclear weapons tests, saying this was just a cover for “espionage”. He insisted inspection and control must be under a three-man commission—neutral, western and communist—which would make it possible for Russia to block investigation of any suspicious blasts on its territory. The commission, under Khrushchev's rules, would have to agree unanimously before it could move.

Disarmament — The Soviet Premier made it clear that any arms reduction agreement covering conventional forces and arms would have to be policed by the same “Troika” set-up under which the Soviet Union would have veto power on a three-man committee. Kennedy rejected this. The prospects for a disarmament or arms reduction

agreement, never good, now appear to be nil.

Laos—Khrushchev agreed there should be an “effective” cease-fire there as a foundation for an international agreement guaranteeing the tiny kingdom's neutrality and independence. *But here again he insisted on the Troika control system, with its Communist veto power, rendering it useless in the view of the West.*

Kennedy could find no point of breakthrough in the Russian positions. Khrushchev said the United Nations operation in the Congo, which he tried unsuccessfully to block, had convinced him that he must insist on the “Troika” in every international agreement. Kennedy found him absolutely adamant on this point, which would enable the communists to

paralyze intervention on the one hand, and on the other, leave the well-organized communists inside these countries to speed up the process toward communization.

Kennedy was just as adamant in saying he would never accept a system that was “fraudulent” because it gave the superficial appearance of an inspection and control system but in reality was rendered useless by veto powers.

Khrushchev's unwillingness to agree to open inspection of any sort on any subject obviously stems from his realization that secrecy is one of the Soviet Union's major military weapons. He has boasted that he knows where most of the U. S. military might is, and what it consists of, but the Americans have only fragmentary information about Russia's.

He once described former President Eisenhower as “foolish” for thinking Russia would ever open its territory to inspection to enforce arms reduction or control.

Kennedy and Charles de Gaulle

Khrushchev's extremely rigid attitude at Vienna gave added urgency to Kennedy's efforts to bolster the sagging Western alliance.

In this connection, Kennedy's lengthy Paris conversations with President Charles de Gaulle may have done some good. It's too early to tell.

Kennedy and de Gaulle did not try to iron out specific differences over NATO operations. They made no effort to solve the problems posed by de Gaulle's refusal to permit his forces to be integrated effectively into the NATO command. Nor did they try to resolve de Gaulle's refusal to let American warplanes armed with nuclear weapons use French airfields.

But Kennedy took one step which he obviously hoped would soften up de Gaulle. He promised him a greater voice in global strategy—a voice more equal to that of Britain and the United States in world-wide decisions (Please turn to page 400)



Hail, Hail, the gang's all here . . .

New Uncertainties Confronting Market

Foreign developments and portents are on the sobering side. So also are some aspects of the Administration's domestic policies. With the averages in a restricted range, many individual stocks show weakness or appear stymied. A number of speculative balloons have been punctured. The investment mood is hesitant. The generally expected "summer rise" could be disappointing. A degree of caution is advisable here, together with stress on selectivity.

By A. T. MILLER

IN narrow movement, the industrial average was up slightly on balance, over the past fortnight, rails and utilities off slightly. With no progress made for nearly a month, the Dow Industrial average stands about 5 points under the May 19 peak of 705.96; utilities a fraction below their May 22 high, and rails off considerably from the recovery level attained as far back as March 22.

By the final session last week the volume of Big-Board share turnover was the lowest seen in about

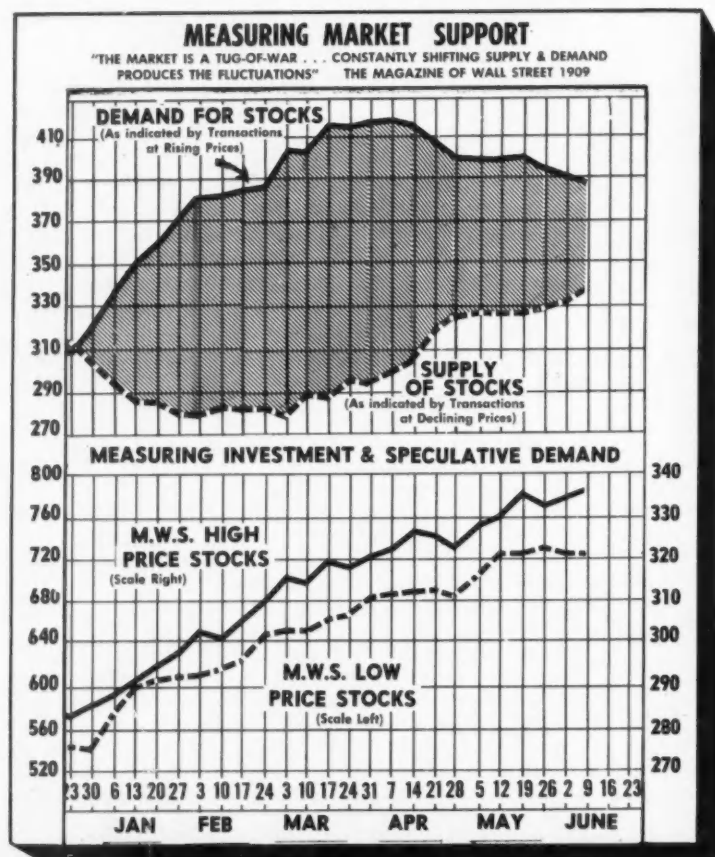
five months. There has been a sharper comparative shrinkage in activity on the American Exchange, where the speculative fever was running rampant not so long ago; and a similar toning down of excitement in the over-counter market.

In some sections of the market which have little or no representation in the Dow Industrial Average, there has been wide deflationary adjustment—ranging up to near-collapse of some speculative issues. Included are a number of electronics stocks, especially those affected by deep price cutting in transistors; and issues in such fields as vending machines, bowling, boats, textbook publishing, drugs, cosmetics, and discount retailers. Here, and among some other "glamour" stocks, sell-offs from highs range from roughly 20% to 50% in a number of cases.

Fresh Leadership Needed

In broad terms, there is now less allure in much of the whole range of stocks carrying the loose labels "glamour" issues, "science" stocks or "growth" stocks. So the brokers tell customers to buy the more reasonably priced "Blue Chips" or good-grade cyclical stocks. You run into trouble with simple labels. Some Blue Chips are growth stocks selling at fantastic multiples of earnings, such as I.B.M., for example. Few issues that can qualify for the term Blue Chip are priced at multiples of less than 20 to 25 times earnings, and present market performance of some of these is unimpressive.

Cyclical stocks have had large advances in many cases, discounting a full profits recovery while earnings are still depressed. So the market needs fresh leadership—and one must wonder where it can come from. Steels play a big role among cyclical stocks, and have considerable influence on sentiment but have run into bumpy weather



recently. With the third round of wage boosts under the present contract due October 1, there had been expectation of some general price increase. This possibility is not yet ruled out, but hopes have been dampened by recent further price cutting on stainless steels and on some pipe as a result of competitive conditions; and by the Administration's "open-mouth" policy on wages and prices.

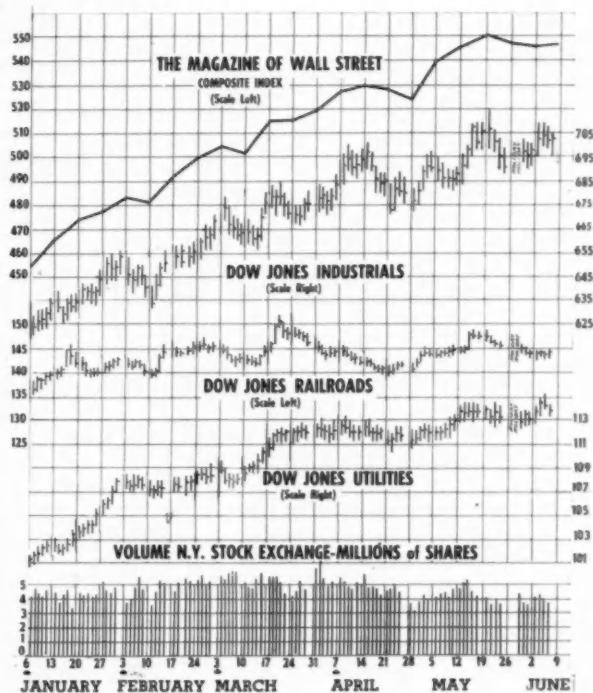
This policy is to try to check acceleration of the wage-price spiral by official lectures and warnings — while the Administration continues its basically inflationary spending policies and its pressures on the Federal Reserve to maintain easy money. Success for it seems doubtful, if not improbable, but more light will be provided by the outcome of nearby wage negotiations in the automobile industry. An auto strike is possible.

Aside from restricted over-all movement of stock prices and reduced share turnover, investment hesitation and the relapse in speculative enthusiasm are reflected in the decreased numbers of individual issues attaining new highs. This daily total ran to a peak 195 issues in early April, when in a number of sessions there were only three or four new lows recorded. In one recent trading session the new highs were off to a total of 30, the lows up to 15. On a daily average, last week's new highs totalled 59 issues, poorest figure in some time and little over three times the number of new lows.

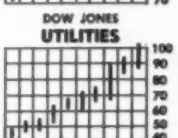
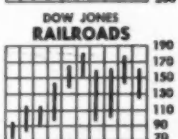
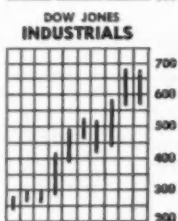
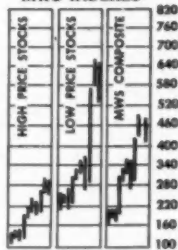
The time for the so-called "summer seasonal rise" is near and will provide a further test of the market's vitality. It should be noted that gains in July or August have been sizable to large in some years, small in others—depending on the market's technical position and prevailing investment speculative sentiment. Significant summer advance is not assured. Last year, a June rally level was not exceeded in either July or August; and in 1957 a 101-point fall by the industrial average began in July.

There could be an analogy in 1950 experience. It was a business recovery year, as is 1961. The industrial average by June had risen 41% in 12 months from the mid-1949 low. Due to need for consolidation, the June high was not bettered in July or August. In the present instance, the average has risen 26.4% from last October's low in a little under

TREND INDICATORS



YEARLY RANGE 1951-1960 MWS INDEXES



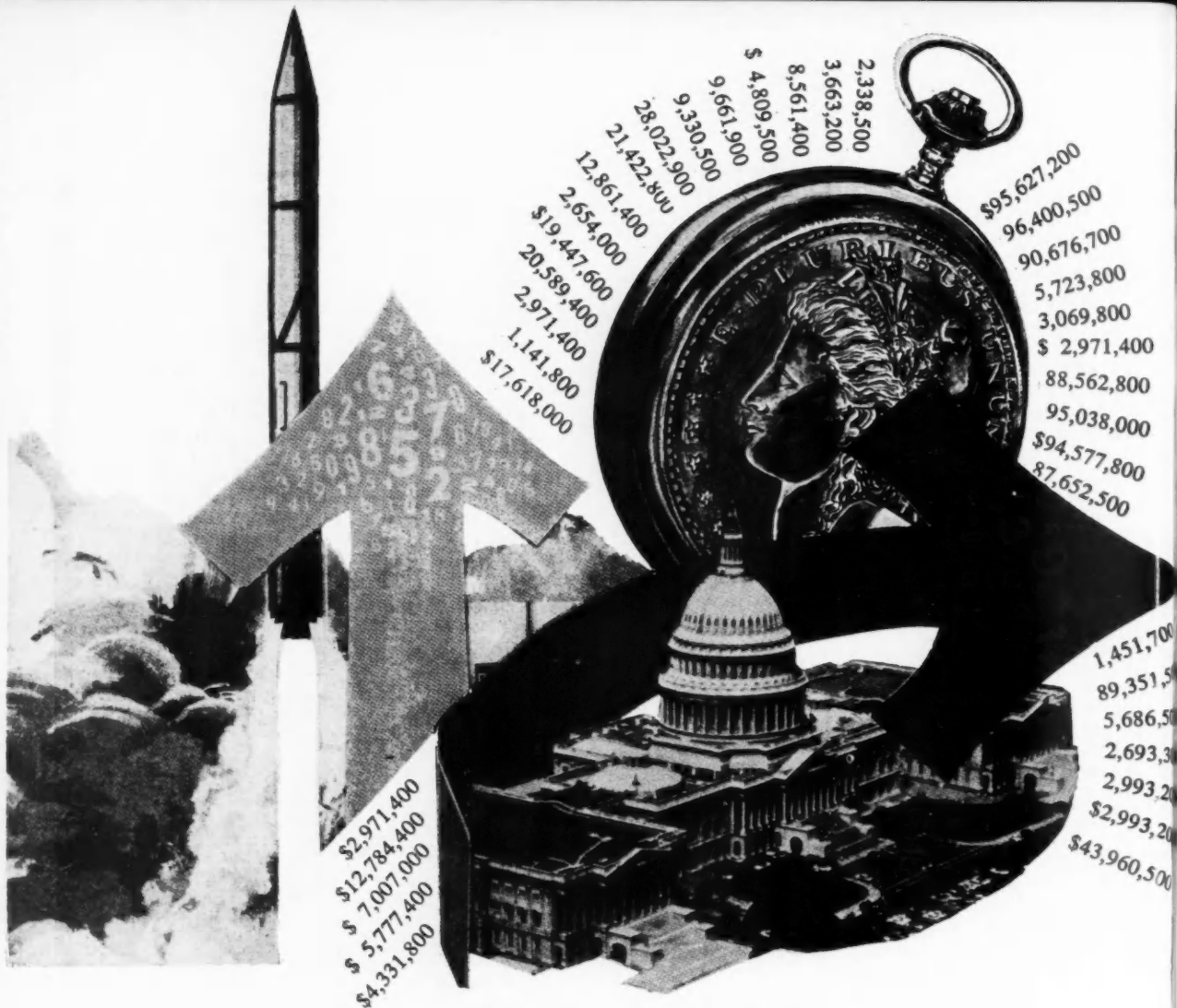
8 months. The advance could need more consolidation.

Two Important Differences

Two primary differences are that average price-earnings ratios now are unprecedented and nearly three times what they were in 1950; and that the Communist challenge to us becomes steadily more serious and formidable. All indications point to a Berlin showdown later this year. Results of our foreign aid program to date suggest that more of it will not block Red subversion and infiltration in Southeast Asia, Africa or Latin America.

The tendency of the modern market to run further and further ahead of the business cycle suggests these possibilities: (1) the bulk of the advance while business is depressed or in partial recovery; (2) at least a slow-down after industrial activity has passed its prior peak, as it probably will do within a few months; (3) a trading-range market for some time and then a decline starting rather far ahead of business recession.

A market which ignored poor business news for months may not get too enthusiastic over good business news here. This is contrary to the consensus that there is major further advance ahead. Time will tell. At present it might not be a bad idea to "wait and see" for a while.—Monday, June 12.



RATIONALIZING THE FREEDOM (TO SPEND) DOCTRINE

*Oh for that sense of "Freedom"
that comes when one is broke*

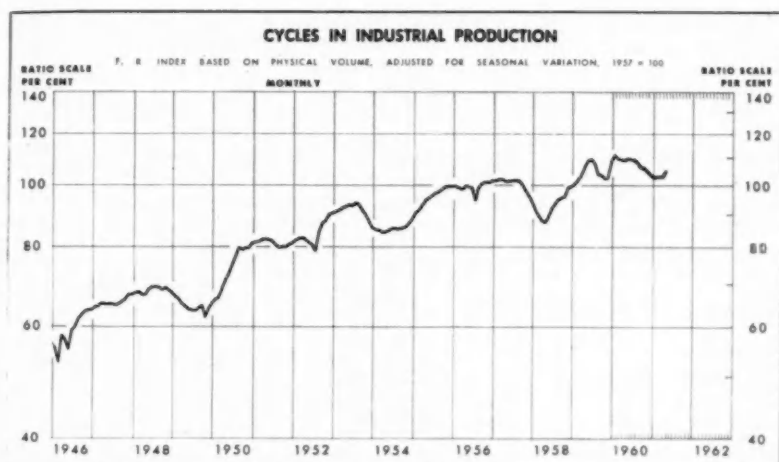
*— Maybe Mr. Kennedy doesn't know about that
because he has always known the freedom of wealth
— and his pockets have ever been full of dough.*

By PAUL J. MAYNARD

IN his Second State of the Union Message of May 25th, President Kennedy said "I am here to promote the freedom doctrine". Then he proceeded to outline some startling proposals for free spending on a massive scale. One is led to wonder whether in addition to the four freedoms we now have a fifth one—the freedom to spend.

It hasn't taken the Kennedy Administration as much as half a year in office to set a course in the direction of bigger spending and bigger deficits. The May 25th "Message on Urgent National Needs"

was the fourth on fiscal matters in a period of a little over two months. The first message on March 24th dealt with fiscal policy, followed by a second one on defense on March 29th. The third message covered tax proposals on April 20th. Each time the tab has moved substantially higher. The latest message increases the prospective budget deficit for fiscal 1962 to \$3.6 billion, or \$5.1 billion more than that projected by President Eisenhower in January of this year when he foresaw a surplus of \$1.5 billion.



With upward budget revisions coming along in such rapid succession, the bewildered taxpayer is wondering when and where the limit will be set. Certainly what has been outlined to date is far from a complete picture of the contemplated spending program of the Kennedy Administration. In fact, we have been told that to forge ahead in the space race and to put a man on the moon by 1970 we must figure on spending another \$7 billion to \$9 billion for these projects in the next five years alone. Furthermore, the foreign aid program is being expanded to close to \$5 billion, and more is to be spent for civil defense and for practically every domestic activity of the government.

Certainly Mr. Kennedy and his economic advisers must be cognizant of the probable impact on our economy of the increased spending which they are recommending. Coming at a time when the revised 1962 budget proposes cash outlays under the heading of Major National Security of \$48.2 billion (3½ times the level of the pre-Korean War era), the superimposition of additional large spending has strong inflationary implications. The danger of inflation is increased by the possibility that the proposed spending program might be in full swing at about the same time that our economy is emerging from the 1960 recession.

The conclusion seems inescapable that the present administration is embracing increased spending proposals because it believes that massive Federal outlays of funds are needed to stimulate our economy to a higher rate of growth. The Chairman of the Council of Economic Advisers recently stated: "I have pointed out that in recent years the American economy has fallen short of its vast potential for producing useful goods and services—and it lies within our grasp to raise the rate of growth of our economic might by public and private policies which lie well within the institutional structures that have served us so well."

While this statement seems reasonable, it carries with it the inflationary implication that all downward adjustments in our economy should be ironed out by increased Federal action. Furthermore, while some tax incentives for new plant expansion have been proposed among suggested Federal income tax revisions, major emphasis has been placed on increased spending by the Federal Government as the

principal remedy for an alleged unsatisfactory economic growth rate. In fact, for almost all the nation's problems, be they of a military, civil defense, agricultural educational, or depressed area variety, the universal panacea suggested by the Kennedy Administration is increased Federal spending!

The Keynes Theory That Britain Discovered

The theory that massive doses of Federal spending on a deficit basis are needed to achieve a satisfactory economic growth rate harks back to the writings during the 1930's of John Maynard Keynes, the English economist. While former President

Franklin D. Roosevelt adopted Mr. Keynes theory of "compensatory government action" in the 1930's, he was unable to make it work, and full utilization of the nation's economic and productive potential was not attained until after the start of World War II.

► A modern restatement of the so-called "growthmanship" or "compensatory" theory was made in a policy statement submitted by the Council of Economic Advisers to the Joint Economic Committee on March 6 of this year. The essential point of this theory as then restated is that, quite apart from the 1960 recession, there is increasing slack in our economy; there is a growing gap between actual and potential output; in short America faces a problem of chronic sluggishness or stagnation in its economy which, if it is to be overcome requires a greater degree of government action.

Dr. Arthur F. Burns, Chairman of the Council of Economic Advisers in the Eisenhower Administration, points out certain fallacies in its formulation. Chief among these flaws is the use of an abnormal base period of 1947-1953 as a standard of measurement. This period of greater than average activity, was stimulated and lengthened by the effects of the Korean War. Furthermore, Dr. Burns finds flaws in the base period used for measuring changes in unemployment, and in establishing so-called gaps between actual and potential output. Actually the protracted steel strike in the second half of 1959 contributed significantly to the incompleteness of the expansion of 1958-1960. In light of Dr. Burns' point, it would appear that much of the basis for need to stimulate our national economic growth rate rests on a shaky statistical foundation. In other words, the normal forces of recovery, if allowed to operate freely might well take care of any slack in our economic growth rate without outside stimulation.

The theorists, whose avowed objective is to stimulate a higher economic growth rate by means of Federal spending, evidently are not worried about the inflationary implications of their actions. This lack of respect for inflationary dangers is typical of the Keynesian economists. If inflation does develop they are ready with a whole kit of socialistic controls over prices, wages, profits, etc. In fact, there are already signs that such governmental con-

trols over our economy, with their deadening effects on business, are being readied.

That Urge to Greater Growth

The justification for the new spending programs is that these are extraordinary times and an accelerated rate of growth is needed to keep pace with the expansion of Soviet Russia. Furthermore, it is claimed that if the higher growth rate is developed it will provide increased revenues making higher tax rates unnecessary. The extraordinary times or emergency doctrine has been invoked so many times that it is rapidly becoming "old hat".

Franklin Roosevelt spoke of the younger generation's "rendezvous with destiny", as if every generation didn't have to solve new problems. The Roosevelt Administrations, two decades ago wore out the emergency ploy as an excuse for increased Federal powers and spending plans. We might as well face the fact that ordinary times, if they ever did exist, are a thing of the past. All times are extraordinary and we can no longer invoke the emergency alarm bell as an excuse for unwise spending plans or crash programs. Furthermore, to rely on spending to produce higher tax yields, which will pay for the disbursements seems to be the height of Alice in Wonderland economics. If this worked it would be equivalent to the discovery of perpetual motion.

Certainly there can be no objection to spending all that is needed for the defense of our freedom. However, the amount we can spend without losing our economic freedom and without impairing world confidence in our currency is limited. This means that we must choose between alternatives. Guns come before butter, and defense comes before social welfare programs.

However, the biggest single increase in budgeted 1962 expenditures is for Labor and Welfare programs enlarged to the extent of \$1.3 billion over President Eisenhower's January estimate which itself would have set a new record in this category. Labor and Welfare at \$6 billion, is slated to move up into third position among major administrative budget categories, exceeded only by National Security and interest on the national debt.

Dr. Walter Heller, Chairman of the Council of Economic Advisers, rationalizes greatly enlarged new spending programs for Labor and Welfare on top of record breaking national security appropriations by arguing that increased Federal expenditures for such things as aid to education, and to farmers, additional health and medical programs for the aged, aid to depressed areas, etc., all are needed for our security and economic growth. It certainly seems to be stretching a point to claim that large Federal expenditures are needed to assure a healthy productive labor force or that our educational system will fail without large appropriations from Washington. Actually, if we want greater educational opportunities for our youth and better educational standards, we should be willing to raise the funds by taxing ourselves at the local level to pay for them. To postpone paying for them by resorting to Federal deficit financing is to dishonestly pass the burden onto the next generation, with interest.

Mr. Citizen That Means You—But

The brilliant call of President Kennedy's Inaugu-

ral Address—"Ask not what your country can do for you but rather what you can do for your country" seemingly was just a flight of oratory, not supported by specifics. Instead of sternly setting spartan standards of spending for non-defense programs, while calling for heavier taxes on all to pay for greater defense appropriations, the Administration is playing the role of a political Santa Claus. The slogan should be "Ask not what you can do for your country but what your country can do for you." Every pressure group from the farmers, to labor and senior citizens is to get extra Federal hand-outs at the same time that our budgeted expenditures for defense are rising to new heights. To cite the case of the farmers, agriculture programs, which have been costing more than \$4 billion in each of the past six years are slated to rise to \$5.7 billion in fiscal 1962. This \$5.7 billion is \$642 million higher than President Eisenhower's January estimate. The difference is mainly explained by higher price supports for numerous farm products, added funds for surplus food distribution, and enlargement of appropriations to support rural electrification.

Furthermore, there is a real question whether the so-called space race which is to cost many billions of dollars, will really add to the strength of our national defense. Could it be that this is primarily a question of winning world prestige by being first to achieve a scientific stunt?

A Sick Dollar Weakens Our Country — and Each One of Us

If this is the case, would we not be better advised to keep the dollar stronger by avoiding the strain of such heavy additional spending? Or if we must spend the money, would it not be wiser to use it to strengthen our military services and equipment? These are questions which should be answered before entering upon a multi-billion dollar space race which could endanger the strength of our currency and of our economy, already laboring under the burdens of record outlays for foreign and military aid.

► Because of our unfavorable balance of payments, the need for the United States to avoid inflationary rises in prices and wages is particularly important. It is also vital to our interests that confidence in this country's fiscal integrity be maintained.

Our position as leader and principal source of strength of the Free World requires that the dollar be kept strong. Despite some improvement in the balance of payments of this country over the last few months, there is no basis for concluding that this problem has been solved. Higher prices and labor costs in the United States compared with the rest of the world could further weaken our ability to compete with other nations in export markets. Lack of confidence in our ability to balance our budget could lead to a fear of devaluation and a consequent flight of short term funds from the United States. This would further aggravate the balance of payments problem.

The Road Toward Serious Inflation Has Been Set

► A long range view of America's economic history, or for that matter, the world's economic history, indicates a growing bias toward inflation.

● Recent legislative developments in the United States such as the Employment Act of 1946 and labor and farm aid laws have further strengthened inflationary tendencies. ● The need to spend over \$45 billion out of an \$80 billion plus budget for non-productive national security purposes further weakens the nation's defenses against inflationary elements. ● Now to additionally weaken the protective barriers against inflation by embarking on new Federal crash spending programs is to make dominance of the forces of inflation in our economy a practical certainty.

President Eisenhower stated in his special message to Congress on May 3, 1960:

"For America's sake, we must resist the temptation, this year or any year, to overspend the taxpayer's hard earned dollars and overcentralize responsibilities in the Federal Government. If we fail we will weaken our hope of ever controlling Federal extravagance and will indefinitely postpone debt retirement and tax relief. At the same time we will debase our currency, invite the resurgence of dangerous inflationary forces, undermine local and state responsibility, and thus erode away America's strength at home and all around the world."

Note Mr. Kennedy

These words should be carefully reread by our present chief executive and his advisers. They explain why President Eisenhower vetoed the unwarranted high price supports and subsidies incorporated in agricultural legislation passed by politically motivated congressmen. They also show that President Eisenhower recognized the danger of inflation as the greatest threat to the country's economic stability and well-being.

Soviet Russia's leaders boast that their system will "bury" us without the necessity of ever going to war. This would be pure poppycock if the United States clings to the sound basic principles of the free enterprise system which have made our nation strong and productive. However, if through unwise fiscal management we so burden our economy with taxes, debt, and excessive labor costs that it ceases to function effectively, we could lose our position of world leadership.

Where Do We Go From Here?

► No financial or monetary expert is sufficiently wise to be able to pinpoint the spot where moderate inflation ends and runaway inflation begins. It would seem, however, that the United States today with its \$289 billion Federal debt, its excessive and incentive-deadening tax rates and its vast spending plans, is already well along the road to inflation. The danger signals are up, and we must heed them or face the consequences of governmental regimentation and loss of freedom. We need statesmanship

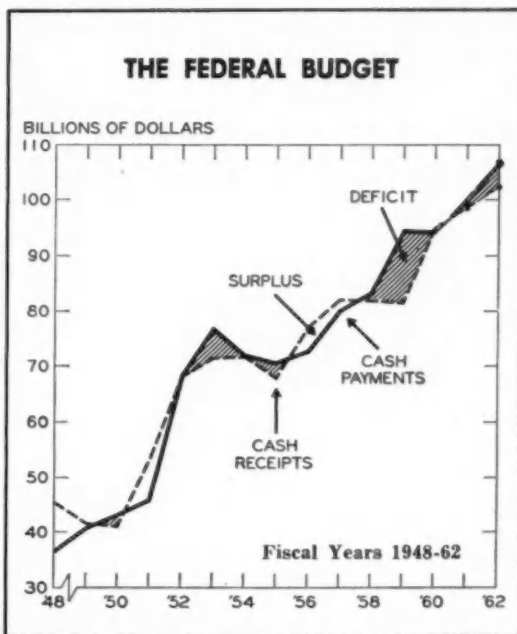
of the highest order rather than political expediency. Congress must have firm leadership, dedicated to economy, or it will dissipate the nation's financial resources through unrestrained spending. As an example, some of the President's budget requests for military purposes recently have been the subject for Congressional over-appropriation. Without a tight rein to hold it in check, the nature of Congress is such that it will tend to take the bit in its teeth and run in the direction of over-spending.

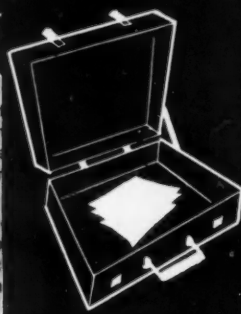
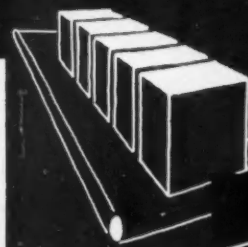
The theory that the economy of the United States is mature or sluggish and needs a stimulus has not been established, and rests on questionable premises. If our economy does need a stimulus, certainly massive deficit spending by the Federal government does not represent a sound or lasting remedy. Higher labor costs and taxes result from increased governmental spending. These inevitably mean higher prices, which have adverse effects on America's ability to compete in world markets.

Thus such a policy would aggravate our balance of payments problem. Furthermore, increased uncertainty arising from the threat of inflation and governmental controls is harmful rather than helpful to long range solid economic growth. The steady, relentless climb in Federal Government spending, especially if accompanied by ever-larger deficits, constitutes a growing threat to freedom in the United States. The cold war requires the expenditure by our government of over \$45 billions (or over half the total budget) for military purposes, plus other billions for aid to under-developed nations. These outlays in and of themselves are inflationary and require us to maintain very high tax rates, approximately at the war-time levels. To add to these required expenditures large amounts for labor and welfare programs, the need for which is questionable, would subtract from, rather than add to the nation's economic strength and its ability to expand.

Strong as our country is today, we cannot go on disbursing billions on billions of dollars in Federal spending without considering priorities or without distinguishing what is important from what is relatively unimportant.

The cause of freedom is not aided by unrestrained government spending programs which feed the fires of inflation. Individual freedom is not compatible with excessive Federal spending because the latter inevitably leads to increasingly heavy taxes and regimentation. These subtract from, rather than augment, the sum total of freedom in the world. If the necessary taxes are not levied, inflation steps in to rob the worker of the future of his labor through debasing the currency which he receives in exchange for his contribution to production. END





\$152 954	\$142 351
28 430	26 049
2 102	1 954
183 486	170 354

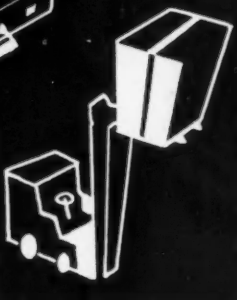
Other supplies
Depreciation of
Taxes (other than
Federal and state
Deferred income

75	32 733
71	20 410
36	12 315
303	3 640
84	10 745
53	14 670
15	19 333
22	23 900
32	676

Total
Interest and in
Dividends on p
Dividends on c
Earnings retain
Total

Shares of Common Stock

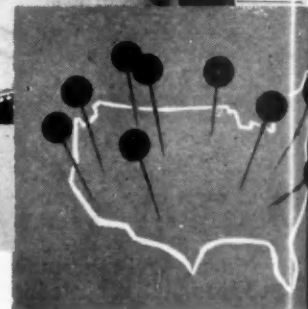
Average for year
At end of year
Earnings on average shares
Earnings on end of year shares



7 125	6 896
3 558	3 558
17 266	16 221
5 746	5 257
\$183 486	\$170 354

\$10 603
2 381
148
13 132

1 742
561
3 021
163
1 539
1 363
1 962
1 622
-644



GAUGING THE BUSINESS OUTLOOK

☆ By Company Backlogs
☆ and Inventories ☆ New Orders

By HOWARD NICHOLSON

THE much heralded upswing in business appears to be well under way, although so far the statistical evidence is fragmentary. As a matter of fact, until the April, 1961 figures were released on new orders, backlogs and manufacturers' inventories, the supporting evidence was slight. Hence, a cautionary note about the state of the nation's business should be noted at the outset.

On all sides can be heard a chorus of optimism about the balance of 1961 and the full year 1962. No dissent is intended here—just a much needed observation that so far the physical evidence of returning prosperity is lagging far behind the optimistic wishes. This is understandable in the early stages of an upturn, but we should understand that it is still very early—and that it is in the early stages that upturns sometimes die out before fledgling booms develop. Under other circumstances we could be less cautious, but with the stock market almost unanimously over-valued, the expected boom

is adding further premiums to already over-inflated quotations. Hence, if the boom should prove abortive stock prices would be particularly vulnerable.

Sparse Tangible Evidence of a Forthcoming Boom

A look at the accompanying table gives further evidence of the need for caution. Few indications can be found among the companies presented of a massive buildup in order backlogs—and it is unfilled orders that are the backbone of industrial booms. In fact, except for the defense industries it is obvious that backlogs so far have little meaning as confirming evidence of a forthcoming boom. The latest figures, just released by the Commerce Department, also suggest that it is still very early in the day, although there is no doubt that the situation is more encouraging now than at any time in a year.

In April, manufacturers' new orders increased for the third month in a row, the longest streak we

have seen in over a year. The rise was about 4% over the March figures, coming to a total of \$30.7 billion compared with \$29.8 billion in March. Even more encouraging was the fact that for the first time in a long while, new orders exceeded manufacturers' sales, indicating that backlogs were beginning to mount.

Heavy Defense Orders Introduce Distortion

But the building process is slow. At the moment, backlogs of unfilled orders stand at \$46.1 billion, the highest since last October when they totalled \$46.6 billion. But both the new orders and the backlog figures in April were swelled by the heavy placement of defense orders. Hence, the gain in transportation industry backlogs does not mean, for example, that private enterprise is again ordering railroad cars and commercial aircraft, but just that aircraft contractors have received big awards for missile systems.

In addition, other industries that should normally give the best evidence of a growing boom are still following an erratic pattern. Machinery and tool orders have been alternately encouraging and then depressing as unexpected declines turn up just as it appears an upward trend is well under way. Similarly, heavy electrical equipment, one of the principal props of high backlog figures, have not yet shown a consistently rising pattern. There has been some evidence that they will shortly grow—mostly a sign of price firmness lately—but until the figures actually disclose rising order backlogs for the equipment makers, it would be wise to adopt a skeptical attitude.

Will Inventory Upturn Be Extended?

Among the most encouraging signs so far is the April reversal of the seven-month decline in inventory accumulations. Manufacturers' stocks rose to \$53.4 billion, \$100 million more than in March, but still a billion dollars behind the inventory figures a year earlier. The reversal is important, but it would be an overstatement to claim that this provides evidence of rapid building of inventories—and this will be needed before we can feel certain that a new boom has been confirmed.

The current economic picture boils down to this: the economy has stopped going down, and some encouraging signs are visible that a real upturn is in the making, but so far we have experienced nothing more than a normal seasonal upturn in business, plus a big shot in the arm from government defense contract awards. All this has led to a cessation in the growth of unemployment and has rekindled businessmen's optimism, but there is little evidence as yet that the optimism has been converted into concrete business decisions.

If the new order, backlog and inventory figures continue their current trends over the next several months, to be sure, everything will be rosy indeed. But it is well to bear in mind that this *must* happen if we are to have any semblance of a boom, and if industry is to translate its high capital spending plans into actual orders which will eventually swell order backlogs to boom proportions.

Machinery Backlogs Confusing

Machinery and machine tool orders and backlogs present one of the best reasons for avoiding too hasty conclusions about the future state of busi-

ness. For three months orders rose, apparently establishing a real uptrend. To the orders from Europe, that had bolstered the industry for a year, was now added a rising level from domestic customers. Last month, however, a sharp break in the upward trend was suffered, as new orders took an unexpected plunge. It is possible, of course, that the latest figures are a freak occurrence, explainable by a sudden shift in the European demand that has bolstered the industry for the last year, but so far we don't know.

Nevertheless, until the recent drop, the machinery industry represented one of the few tangible reasons for expecting an increase in order backlogs.

Cincinnati Milling Machine, one of the largest and most successful of the machinery makers reported a backlog of \$53 million recently, up substantially from the \$47 million of March, 1960. However, it is noteworthy that the company's unfilled order position is *lower* now than it was at the year-end. The two million difference may not be significant, but in view of the erratic nature of machine tool orders recently it is worth watching. As a matter of fact, the entire machinery-machine tool group presents a mixed picture.

Babcock & Wilcox, which did very well last year and also had a highly respectable first quarter in 1961, seems to be eating into its backlogs a little too fast for comfort. From \$300 million a year ago, unfilled orders declined to \$291 million by year-end, and then lately dropped again to \$278 million. This is still a healthy backlog when measured against last year's sales of \$311 million, but the trend is uncomfortable at a time when most observers are looking for evidence of an increase.

American Machine & Foundry has also suffered a decline from the figures published a year ago. This does not, however, reflect new defense orders recently placed, so that in all probability a fresh figure would erase the deficit.

AMF was one of the few major companies to score an advance in earnings in the first quarter, and unless the economy heads into an unexpected tail spin it should put another good year under its belt. A rising backlog figure, however, would be a welcome sign.

On the other hand, a few machinery companies have recently published tangible evidence of sharp improvement.

Bucyrus-Erie, long in the doldrums is finally showing signs that the long drought for heavy construction machinery is coming to an end. Backlogs in March of 1960 were a paltry \$20 million. By year-end they had climbed to \$28 million, and lately have been reported as high as \$36 million. The company operated deep in the red last year, but the rising backlog, when coupled with the 44¢ net already earned in the first quarter, lends hope that profitable operations are in the wind for 1961.

Food Machinery & Chemical is also on the plus side. This high quality company has never been in serious trouble, and is once again showing its mettle. Backlogs were recently reported at \$138 million, a healthy increase above the \$82 million in March of 1960.

Some Aircraft Manufacturers Benefit from Changed Defense Emphasis

The mixed picture for the machinery industry is

Order Backlog Trends For Representative Companies

	Order Backlog			1960		1st Quarter				Indicated 1961 Div.	Price Recent
	Latest Reported	12/31/60	3/31/60 (Millions)	Net Sales	Net Earnings Per Share	1960		1961			
						Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share		
AIRCRAFT											
Boeing Airplane	\$2,209	\$2,139	\$2,000 ¹	\$1,554.5	\$3.07	\$395.7	\$.51	\$325.2	\$.75	\$1.60	47
Chance Vought Corp.	201	—	253 ¹	213.8	3.27	62.6	.74	45.5	.79	2.00	57
Douglas Aircraft	879	—	1,413	1,174.0	^d 5.09	251.5	^d 1.82	204.8	.45	—	34
General Dynamics	2,550	—	2,550	1,987.7	^d 2.71	473.3	.62	507.5	.42	1.00	37
Grumman Aircraft	311	—	370	325.5	3.27	73.2	.88	75.9	.73	1.50	34
Lockheed Aircraft	1,270	1,220	1,110 ¹	1,332.2	^d 5.82	340.3	.38	336.3	.59	—	43
McDonnell Aircraft	372	402	—	436.9	3.55	330.3 ⁷	2.57 ⁷	260.8 ⁷	2.68 ⁷	1.00	35
North American Aviation	928	873 ²	—	964.1	2.87	498.0 ⁸	1.43 ⁸	573.6 ⁸	1.43 ⁸	2.00	49
Republic Aviation	637	511	—	215.2	3.29	34.9	.35	85.7	1.87	2.00	49
United Aircraft	1,025	—	1,000	987.8	1.95	273.9	.95	277.6	.26	2.00	45
ELECTRONICS & INSTRUMENT											
American Machine & Metals	17	16	18 ¹	50.3	2.13	13.1	.81	12.0	.49	1.60	45
Burroughs Corp.	107	—	105	387.4	1.39	98.6	.37	90.4	.21	1.00	32
Collins Radio	160	—	190 ³	190.8	3.04	91.7 ⁸	2.16 ⁸	112.4 ⁸	1.18 ⁸	—	41
Fairchild Camera & Instrum.	36	—	20	67.9	3.07	13.8	.77	20.6	.72	.50	182
General Precision Equipment	172	185	—	244.4	3.46	57.0	.77	62.9	.87	1.20	75
International Tel. & Tel.	623	—	549 ¹	811.4	1.95	177.6	.38	193.5	.42	1.00	58
Lear Inc.	78	—	76 ¹	90.9	1.03	22.8	.19	25.1	.21	.40	25
Texas Instruments	91	—	101 ¹	232.7	3.91	56.2	.99	58.9	.95	—	190
MACHINERY											
American Machine & Foundry ..	156	—	164	292.7	3.06	74.9	.44	114.6	.47	.90	52
Babcock & Wilcox	278	291	300 ¹	311.0	2.88	78.4	.81	76.0	.76	1.40	44
Bliss (E. W.)	40	32	36 ¹	86.2	1.40	21.5	.50	19.7	.24	.50	27
Bucyrus-Erie	36	28	20	63.6	^d 5.33	14.3	^d .12	20.2	.44	—	23
Cincinnati Milling Machine	53	55	47	123.5	1.52	29.6 ⁹	.20 ⁹	NA ⁹	.52 ⁹	1.60	43
Cooper-Bessemer Corp.	16	—	27	68.4	2.77	15.0	.70	12.1	.21	1.60	39
Food Machinery & Chem.	138	—	82	363.8	2.11	76.9	.56	91.4	.62	1.40	74
Worthington Corp.	70	64	—	194.4	4.42	43.4	1.02	41.4	.77	2.50	65

^d—Deficit.

NA—Not available.

¹—December 31, 1959.

²—October 1, 1960.

³—July 31, 1960.

⁴—Estimated.

⁵—June 30, 1960.

⁶—June 30, 1959.

⁷—9 months ended 3/31.

⁸—1st months.

⁹—12 weeks.

unfortunate since backlogs in other segments of the economy are relatively meaningless at the moment from a forecasting point of view. Latest defense industry backlog figures were released before the government's step-up in spending was authorized, and before the recent shift in emphasis in the missile and satellite field was enunciated by President Kennedy. Hence, a strong possibility exists that before many months are out, cancellations will glut the backlogs of some companies, while new orders for special missiles and aircraft will sharply increase the positions of others.

North American Aviation, as a case in point, has reported a slight increase over the October, 1960, backlog figures, but this could change radically in the near future. General Curtis LeMay has just been named overall Air Force Chief, and he is a vociferous champion of the B-70 manned bomber, which was recently shelved by the Administration. As the prime contractor on the B-70, therefore, North American's fortunes could change suddenly.

Republic Aviation, on the other hand, while operating at a high rate now, and with a higher backlog than at year-end, may be running out its string. As a fighter plane producer, the company is now in full production, but as deliveries are made, backlogs will drop without replacement orders. Hence, the company will be hard pressed to come up with new con-

tracts in the newer defense fields.

The successful flight by Commander Shepard, however, should reverse **McDonnell Aircraft's** downward backlog spiral. Project Mercury has been a success, and in all probability will now be stepped up to serve as a prototype for further manned probes into outer space. The President has expressed his aim of beating the Russians to the moon, and the Mercury capsule will have to be one of the stepping stones.

The sharp contrasts within the defense groups, however, is best illustrated by **Douglas**. This major company's backlogs have dwindled sharply as deliveries of commercial jets have proceeded far faster than new orders for the jetliners. A year ago, in March 1960, Douglas had a backlog of over \$1.4 billion. Recently, however, the company reported its unfilled order position at a meager \$879 million, or one of the smallest in several years. Growing defense business will keep the company's backlog from dropping too fast from here on out, but as deliveries for jets are completed it will take a long time to rebuild it again.

Electronics Backlogs Also Irregular

The dominance of military ordering also makes electronics backlogs confusing and possibly meaningless. **Collins Radio**, which relies heavily on mili-

Order Backlog Trends For Representative Companies—(Continued)

	Order Backlog			1960		1st Quarter					
	Latest Reported	12/31/60	3/31/60	Net Sales	Net Earnings Per Share	1960	1960	1961	1961	Indicated 1961 Div.	Price Recent
						Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share		
RAILWAY EQUIPMENT											
Alco Products	38	33	40 ¹	86.2	^d .51	26.5	.27	19.4	.02	.40	18
American Brake Shoe	32	30	40 ¹	164.5	3.48	39.9	.64	37.6	.56	2.40	47
New York Air Brake	9	10	12 ¹	40.4	2.30	11.2	.53	9.3	.28	1.60	33
Worthington Corp.	70	64	—	194.4	4.42	43.7	1.02	41.5	.77	2.50	65
SHIPBUILDING											
Bath Iron Works	53	—	101	53.4	5.82	NA	NA	NA	NA	3.00	53
New York Shipbuilding	147	—	210	112.0	^d 13.25	24.2	NA	24.8	NA	—	15
OTHER INDUSTRIES											
Allis-Chalmers Mfg.	197	—	200	530.0	1.12	127.3	.28	110.6	.15	1.50	28
American Steel Foundries	18	18	34 ¹	120.1	2.69	58.8 ^S	1.22 ^S	52.4 ^S	.85 ^S	1.60	34
Brunswick Corp.	201 ⁴	161 ⁵	137 ⁶	359.8	2.28	52.6	.15	52.1	.17	.40	56
Combustion Engineering	355	—	390	261.9	1.75	57.5	.40	63.9	.48	1.20	34
Emerson Electric	87	—	64	125.4	2.74	61.6 ^S	1.37 ^S	70.0 ^S	1.50 ^S	1.00	84
Koppers Co.	170	—	163	302.5	3.06	67.1	.71	58.8	.34	2.00	45
McKee (A. G.)	65	—	44	60.5	2.33	NA	NA	NA	.21	1.50	28

^d—Deficit.

NA—Not available.

¹—December 31, 1959.

²—October 1, 1960.

³—July 31, 1960.

⁴—Estimated

⁵—June 30, 1960.

⁶—June 30, 1960.

⁷—9 months ended 3/31.

⁸—1st months.

⁹—12 weeks.

tary business, reported a sharp drop to \$160 million from \$190 million a year ago. This slowdown has even affected profitability so severely that the company recently omitted its dividend payment.

On the other hand, **Lear**, which is in essentially the same business, reported a small rise in unfilled orders, and **General Precision** reported a small decline.

For the larger companies, with both military and heavy industrial demand for their products, the current picture is also one of uncertain progress.

International Telephone & Telegraph, which is fast becoming an aggressive competitor in the new forms of communications (see our Communications article in the June 3 issue), is in the process of rapid backlog building through defense orders. Latest figures are \$623 million, almost \$100 million more than a year earlier.

Texas Instruments, however, which relies much more heavily on private industry for its business, reported a backlog of only \$91 million compared with \$101 million a year ago. Perhaps more significant, however, is the fact that **Burroughs**, whose backlog now consists largely of computers and data processing systems for banks and private industry, was able to report only a tiny improvement in its new order position over a year ago.

Private Sector Lags

In industries where the huge power of government orders is either missing or of only minor importance, there are still only few signs of improvement in backlogs. The railway equipment makers, for example, are eating away their backlogs rapidly, with no signs of a rise in new orders for any consistent period. **Alco Products** is a possible exception. Backlogs are down from a year ago, but some big orders early in the year put the current figures well above the sharply depressed levels at year end. **New York Airbrake** illustrates the plight of the equipment makers more accurately. The company's unfilled

order position is down 25% from a year ago, indicating that operation from here on out will be on a hand-to-mouth basis.

Backlogs for the **shipbuilders** are also down sharply, but here the situation is not as serious as for the rail equipment manufacturers. Both **Bath Iron Works** and **New York Shipbuilding** made recent deliveries on large contracts—a factor which must depress backlogs because of the magnitudes involved. **Bath**, however, is still the government's favorite navy destroyer contractor and will probably rebuild its position soon. **New York Ship's** situation is more precarious, but the company has the facilities to bid for major shipbuilding contracts and should get its share so long as the government continues its policy of encouraging the replacement of our older merchant ships.

Individual Differences and Specialties

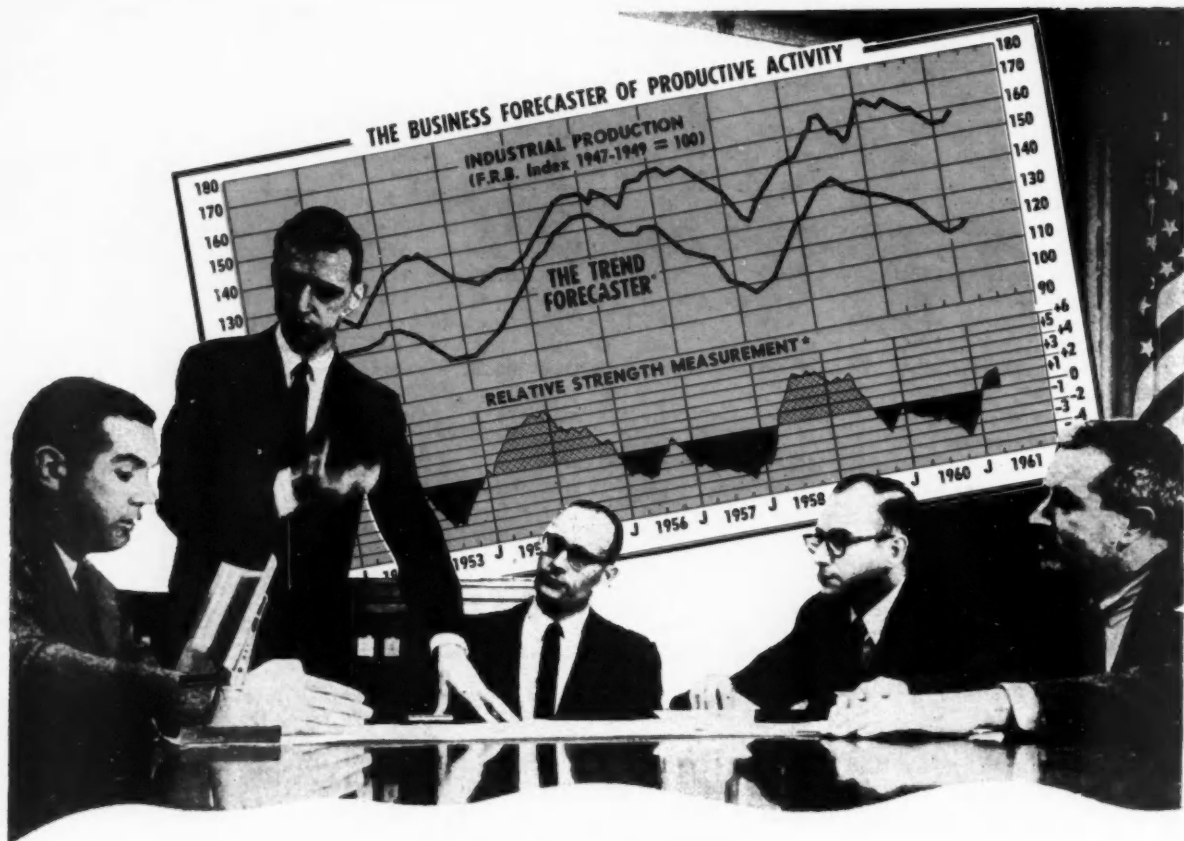
The other companies with reported backlog positions provide few reliable clues as to the general state of business. **Allis-Chalmers** comes the closest, since it is both a big farm equipment producer and a major factor in electrical equipment. Its lower backlog position points up our earlier observation that generating equipment orders have still not grown to enormous proportions.

Brunswick's big jump in backlogs probably means that the bowling boom has not yet run its course. Leisure, as an industry, is booming along, but it is still not a major factor in the heavy segments of the economy.

Koppers Co., however, does reflect some general betterment in heavy industry. The small rise in the company's backlog is the first real sign that the steel industry is encouraged enough by developments in the last few months to begin ordering equipment again.

Current Optimism Still Requires Confirmation

Optimism is rampant (Please turn to page 398)



BRINGING BASIC INDICATORS UP-TO-DATE

As new help for business forecasters

By JOHN W. MCKAIG

THE recent recession badly tarnished the optimistic portrait of the "Golden Sixties." Two years ago, with only rare exceptions, economists and business analysts were starry-eyed with the glittering prospect of a decade of uninterrupted progress. Only a few lonely voices suggested that our eyes should be focused on the path we were actually treading rather than the distant horizon of 1970, and these voices were largely unheard.

To be sure, the optimistic predictions had some justification. Long-range projections of our population, labor force and economic growth as measured by Gross National Product (GNP), all pointed dramatically upward. With no doubt as to basic direction, controversies among the economists centered largely over the rate of increase to be expected in our national well-being. Would it be 3%, 3½%, 4% or a more lofty 5% per annum?

But the 1960-61 recession showed us once again that it is possible to stumble even on an upward-rising path, and this fact has caused many forecasters to pay renewed attention to statistical indicators of short-run fluctuations.

This is not to say that there has been a lack of

such indicators of business and economic activity. Numerous individual statistical series from Government and private sources report the weekly, monthly, or quarterly ups and downs of this or that activity. The possibility of combining these various fragments of information into a sharper tool for economic and business analysis has long been the dream of imaginative minds.

Two Familiar Tools

Of course, this search is not a new one. Certain comprehensive and reliable guides are already in daily use. The oldest of these is the Federal Reserve Board's **Industrial Production Index**, perhaps still the most widely used of all economic indicators. This has been compiled, with periodic adjustments, since 1919, and is currently expressed in terms of the 1957 rate of productivity at 100. (The most recent figure for this index is 105). This data is derived from 1,400 individual series of physical production, about two thirds of which reflect quantities of goods produced or shipped. Certain value and man-hour figures are also included, but these are "deflated" to eliminate the influence of price changes.

A second familiar measurement, **Gross National Product**, the great over-all aggregative index of the economy's output of goods and services, has likewise come to occupy an honored place in our inventory of broad analytical tools. This is more comprehensive than the Industrial Production Index, although still open to the criticism (forcibly expressed at the recent meeting of the National Industrial Conference Board) that it overemphasizes physical output to some neglect of services, which are becoming increasingly important in our standard of living.

But both of these indexes, valuable as they are, are open to another criticism. They are largely historical. Neither of them is the sensitive kind of economic predictor which analysts need to gauge the near-term business outlook.

A More Sensitive Index

In recent years, a third tool has been fashioned out of the wealth of statistical detail which describes current business conditions. Pioneered by the National Bureau of Economic Research, this new tool has been designed specifically to help business analysts predict the turning points in business cycles. The National Bureau's economists found that the changes which take place in some parts of the economy provide leading indications of the future course of business activity as a whole. Other economic changes occur coincidentally with changes in over-all business activity, and there are some economic phenomena whose movements lag behind the changes in over-all activity.

This magazine's **Business Trend Forecaster** is a variant of the lead indicators originally developed by the National Bureau. Readers of the **Magazine of Wall Street** have found it increasingly useful as a predictive tool, and it has become one of this journal's most popular features. Its essential "leading" components are: new incorporations, stock prices, new orders for durable goods, raw industrial commodity prices, average hours worked, business failures measured in terms of liabilities, housing starts and non-residential construction contracts.

Although the distinction among leading, coincident, and lagging indicators has been well known and widely used by private analysts for some time, the Federal Government's statistical program has generally relied upon the older and more familiar analytical tools—the FRB Index and GNP—as supplemented by important individual current series, such as those relating to employment or the Consumer Price Index or manufacturers' sales, new orders, and inventories, and the like. There has been a definite lack of any predictive tool to help guide public policy makers in meeting the exigencies of short-run economic fluctuations.

Federal Statistics Being Revised

This inadequacy is now being overcome. An experimental program was inaugurated by the Federal government in 1957 to provide the Council of Economic Advisers with up-to-date information on current business cycle conditions. To meet the needs of the policy makers, the techniques of the National Bureau were combined with the electronic data processing equipment of the Bureau of the Census and the imagination of the Bureau's Chief Economist, Julius Shiskin, to produce a far more comprehensive and more timely (Please turn to page 392)

PRINCIPAL BUSINESS INDICATORS PUBLISHED BY THE GOVERNMENT *

24 leading series

- Average weekly hours, manufacturing
- Accession rate, total manufacturing
- Layoff rate, total manufacturing
- Number of persons on temporary layoffs
- Initial claims, State unemployment insurance programs, U. S. total
- Manufacturers' new orders of durable goods industries
- New housing starts
- New investment orders and contracts
- Newly approved capital appropriations
- Net change in business population
- Number of new business incorporations
- Current liabilities of business failures
- Corporate profits after taxes
- Profits, before taxes per dollar of sales
- Index of 500 stocks
- Changes in manufacturers' inventories, purchased material
- Change in business inventories
- Index of spot market prices, raw industrials
- Change in manufacturers' unfilled orders, durable goods industries
- Buying policy, production materials, percent reporting commitments 60 days or longer
- Buying policy, capital expenditure
- Index of construction contracts, total value
- Local building permits for private housing
- Total nonagricultural placements
- Change in manufacturing and trade inventories

14 coincident series

- Total nonagricultural employment
- Unemployment rate
- Number of unemployed
- Average weekly insured unemployment
- Index of help wanted advertising in newspapers
- Index of industrial production
- Gross national product, current dollars
- Gross National Product, 1954 dollars
- Bank debits outside New York City, 343 centers
- Personal income
- Labor income in mining, manufacturing, and construction
- Sales of retail stores
- Index of wholesale prices, all commodities other than farm products and foods
- End product demand

7 lagging series

- Business expenditures on new plant and equipment
- Index of labor cost per unit of output
- Labor cost per dollar of real GNP
- Manufacturers' inventories
- Manufacturers' inventories, finished goods
- Consumer installment debt
- Bank rate on short-term business loans, 19 cities

* A cross-section of the indicators appearing in the "Monthly Report On Current Business Cycle Developments"



Inside Washington

BY "VERITAS"

CONGRESS, getting restive under the discomfort of Summer along the Potomac's humid banks, thinks of adjournment by statutory July 31—an impossibility if it is to enact the still-large remainder of the New Frontiers legislative program. Democratic leadership thinks more of Mid-August or September 1 as possible adjournment dates. The thinking is more or less wishful, according to many rank-and-filers, especially in the House, who point up that too much of the Kennedy program is of a highly controversial nature, adding that grass roots opinion is definitely growing conservative. Further, they see

White House proposals as extremely damaging to the budget—even necessitating a hike in the debt limit before adjournment "without passage of a single remaining unfulfilled Administration request. In the background, actually to the forefront, is the tense international situation.

FARM legislation, regarded by many here as the Nation's No. 1 domestic problem, is no nearer a sensible solution than it was in the last Congress. This is according to Capitol Hill sources with fair to intimate knowledge of the agricultural economy as related to the overall economy. Agricultural Committees of House and Senate are about ready to report measures closely patterned after the President's recommendations, but differing somewhat from each other. Two courses are open, according to experts in the field: A gradual return to free markets, or rigorous control of the market supplies. The Administration's measure, which Agriculture Secretary Orville L. Freeman has tried, but without overwhelming success, to "sell" to Farm organizations, smacks of a high order of regimentation that could lead to higher prices to the consumer of both food and fiber products. In turn, this would affect the industrial economy through demands for higher wages. In summary, the legislators most concerned are "up a tree," but don't know what to do.

HEMISPHERE affairs—Western, that is—become of mounting concern in Congressional and Diplomatic circles as Castroism makes dangerously greater headway in Latin America. There is the often openly expressed view that we have spent too much time and money—lavishly—in the Old World in a not-too-successful effort to contain Communism, neglecting next-door neighbors who, though not ravished by war, were in dire economic straits. It took the advent of a Red-tinged Cuban dictator to awaken us. It is the view of seasoned observers that we have been too late with too little, but may still be able to retrieve our position if an intelligent hard-hitting policy is developed.

WASHINGTON SEES:

Judging from the abandon with which Mr. Khrushchev cha-cha'd around at the Indonesian party in Moscow upon his return from Vienna, one gets the impression that he thoroughly enjoyed the hard time he gave President Kennedy and wanted the world to know it.

His antics remind one of the jig that Hitler danced in the streets of Paris when he thought the world was his. We had the last laugh though—and we shall have it again.

Although nothing has been said about it, I wonder if in Russia's desperation for trade dollars, which brought Mikoyan to this country, and super-salesman Khrushchev who followed after he had failed, whether the suggestion was not made to President Kennedy that one hundred billion dollars worth of US trade with Russia on a long term credit basis would go a long way toward settling world problems.

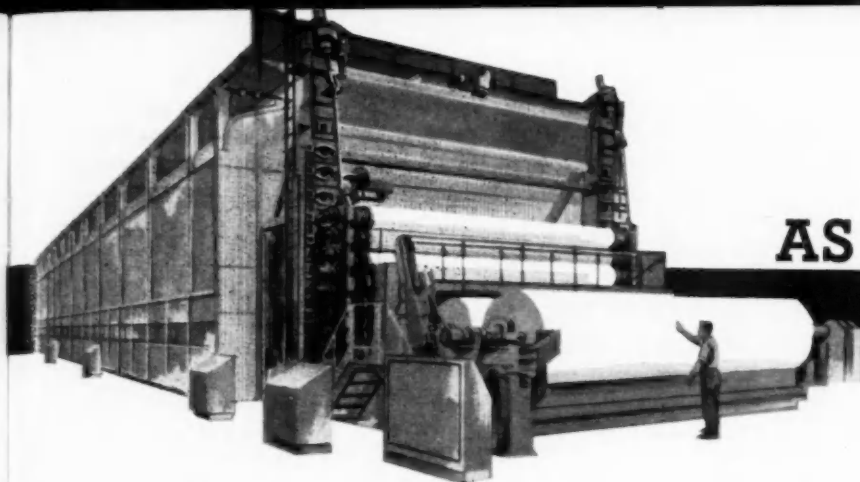
At any rate, Khrushchev did not fare very well at the tail-end of President Kennedy's report to the people, which showed that the President was thoroughly aroused to the challenge of the Russian ideological and subversive economic threat, and fully realized their objective was still the same—to conquer the world for communism and bury the West.

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JUN



AS WE GO TO PRESS

Congress Has Definitely Concluded Tax Legislation Until Next Year. It's the absolute conviction — and assurance — of highly placed sources on both Ways & Means Committee of House and Senate Finance Committee that extension of the Korean War excises and existing corporate tax rate ended tax legislation for this year. Both were highly critical of the tax program of the President, one going so far as to declare it to be "without rhyme or reason, clumsy in more ways than one and grossly unfair to large segments of business." All of which bears out the forecast made in this section, issue of May 20.

Navy "Happy" with New Anti-Submarine Weapon. Only partially unveiled is the sea service's Drone Anti-submarine Helicopter (DASH) to provide destroyers and other naval craft long-range striking capabilities not previously known to surface anti-submarine warfare. DASH, a compact weapon-carrying and unmanned helicopter, can be sent to the area of a submarine, many miles away (detected by the ship's sonar equipment), hover over the submersible, release its charges and return to the ship's deck. Despite its highly intricate electronic equipment, prolonged tests reveal it to be highly efficient. A responsible Navy source declares it "the greatest advance in anti-sub warfare since development of the World War I ash can (destroyer-dropped depth charge)." All new destroyers will carry DASH, while those being modernized will also include the revolutionary new vehicle.

Scandals In Federally Financed Slum Clearance Programs? Yes, says a private organization which, after months of research, declares that owners of slum properties have been

paid exorbitant sums for their holdings. Internal Revenue is closely investigating "windfall" profits, while a Congressional Committee quietly probes mismanagement of urban renewal projects in the larger cities. Nothing will come of it for some months, but the legislators are certain to tighten up the laws to prevent gouging and probable "collusion" between property owners and public appraisers. Unfortunately, the present Session is too far advanced for Congressional action this year.

Bankers' Fears Regarding Mergers May Be Unfounded. Fears of some segments of the banking industry that the anti-trust suits against merger of the Girard Trust Co. and the Philadelphia National Bank, plus the Treasury-Justice "accord" on bank mergers would prove a complete roadblock on mergers of banks and bank holding companies, seem to be groundless. Despite the pending Philadelphia suit, there was a flow of approved bank merger applications between the comptroller of the currency and Justice's Anti-Trust Division in recent weeks. There is presently a slow-down, primarily because of a drop in applications, not because of any objections from Justice, which apparently is taking into consideration the financial position of the applicants; in other words, Justice is asking if the proposed merger would avert the failure of one or more of the applicants, rather than does it tend to create a monopoly.

Medi-Care Will Not Clear Congress This Session. Despite optimistic predictions of a high labor source that Congress will pass a medical-care-for-the-aged bill, tied to the Social Security system, it can be emphasized the forecast is wishful

thinking. With Congress working toward a Mid-August (or earlier) adjournment, it "simply cannot and will not be done," according to the best posted source on Capitol Hill. It is a possibility during the next Session of Congress, "but not as broad in scope and application as recommended by the White House," he added.

Republicans Set Sights High For 1962. Aim is for a gain of no less than 50 House seats, plus 10 or 12 in the Senate. A "bull's eye" on the House target would whittle the present Democratic majority from 88 to a minority of eight. Admittedly, the feat seems next to impossible but, according to Washington politicians (some of them Democrats) odds are now 50-50. The Senate gain of 10 seats would leave the Democrats still in command of the upper chamber but, with revenue legislation, by Constitutional fiat, of House origin, a GOP majority in the House would serve to effectively brake legislation of an inflationary nature.

Cause of GOP optimism is National Committee's selection of Rep. William E. Miller, New Yorker (Buffalo area) as National Chairman. Miller, as Chairman of the Congressional Campaign Committee during the 1960 election, increased GOP House membership by 20, and against tough odds. Credit is given him by his Republican colleagues and the opposition, which privately admits he will be tough to cope with. He has the drive and enthusiasm "which may be lacking in a Party which has grown too complacent," according to a responsible Democratic source, who adds that the last election revealed that "we have a minority President as our Party leader who has yet to prove himself in areas other than spending." With only 33 Senators up for re-election, a majority in the traditionally Democratic South, the most optimistic Republicans feel that ten (more likely eight) is the probable GOP gain in the upper chamber.

Did Interior Retaliate For Texas Upset?

It seemed fairly common knowledge that Interior Dept's. Oil Import Administration would reduce crude oil import quotas approximately 75,000 barrels per day in the last half of the current year, primarily under pressure from Texans' "Veep" Lyndon B. Johnson and House Speaker Sam Rayburn. On May 31, after extensive hearings and just four days after the May 27 Texas election which sent a Republican to the

Senate, Interior Secretary Udall said oil import quotas would remain unchanged until OIA could review and digest hearings and briefs. There is the distinct impression here that, doubtless with the concurrence of LBJ and the Speaker, Udall's action was a form of retaliation for the May 27 defeat of the Democratic Senatorial candidate — that quota reductions will be announced for the fourth quarter. Meanwhile Texas production in June has been cut back to seven days.

Patents Legislation Snarled. Current practice of Defense Department is to permit discoverers of new equipment, systems, etc., (working on government research projects) to retain patent rights for commercial development. Other government agencies — Atomic Energy Commission, National Aeronautics and Space Administration — under their legislative authority, retain all rights, government and commercial. Two bills now pending before the Senate would make this proviso applicable to all developments under government research projects. Their passage is doubtful; they face amendments which would permit the discoverer to retain his commercial and defense rights of development. The situation, at the moment, is foggy but indications are that Congress may strip all Federal agencies of their power to retain industrial patent rights.

Another Veterans' Give-Away Moves Through Congress, Cost?? Billions. The so-called Cold War G. I. Bill, to provide education for Army-Navy-Air Force veterans of the "cold war," equal to that given World War II and Korean veterans, moves toward final enactment. Although now only in the Committee hearing stage, S. 349, sponsored by a 36 member bi-partisan group of the Senate, "to provide readjustment assistance to veterans who served in the Armed Forces between Jan. 31, 1955 and July 1, 1963," has far better than a 50-50 chance of clearing the present Session of Congress. Despite its patently enormous cost, it has the "political appeal" to hurdle any Congressional opposition. First-year cost may be as high as \$750 million, pyramiding each year — perhaps to a final total of \$3 billion — \$4 billion. In short, it guarantees a college education to all service men and women for past seven years, plus two more to come.



A Special Report by W. E. Greening

THE CANADIAN ECONOMY TODAY — WHERE IS IT HEADED?

- ▶ Areas of prosperity and depression ... what various basic indicators tell us about the current situation and looking to 1961 — in terms of industrial growth — corporate profits — consumer buying — and employment
- ▶ Shifts in export trade — likely impact of the European common market — possibility of higher tariffs to protect local industry
- ▶ Position and outlook for minerals and metals — natural gas — and hydro-electric power projects
- ▶ Extent to which outlook is dependent on international economic and trade developments — factors upon which an economic plus will depend in the year ahead

IT may be said that the general business picture in Canada is a very varied one at the present time. Some industries and regions of the country are enjoying a fairly high degree of prosperity while other sectors of the national economy are depressed. During the past year, the Canadian national economy has failed to make the progress that was prophesied by the Canadian Minister of Finance, Donald Fleming, when he introduced the 1960 Budget in the Canadian Parliament in April of that year.

- The value of the Gross National Product in

1960 was \$36 billions, which represented only a 3 per cent increase over the 1959 figure.

- Total capital investments in Canada for the year 1960 amounted to about 23% of the Gross National Product as compared with the record figure of over 27% for the year 1957.

- There was a decline of capital investment in the year 1960 both in residential construction and in business outlay for new plant and equipment.

- The value of housing construction in Canada declined by about fourteen per cent.

- Construction figures were 10% below 1959.

The trend in Canada during the year 1960 was for increasing production from existing facilities rather than any substantial plant expansion.

● Canadian producers were engaged in putting existing capacity to work rather than in increasing that capacity.

● *Corporation profits* for the year 1960 were about 6 to 8% below those for the year 1959. Some of the biggest earners were among the Canadian base metal firms such as International Nickel, Hudson Bay Mining and Smelting, and Noranda Mines.

● *Consumer expenditures* for the year 1960 only showed a small gain over those of the year 1959. There was also a change in the character of these expenditures with more emphasis placed on the purchase of non-durable goods, and the postponement of the buying of more durable goods such as automobiles and household appliances pending the improvement in general business conditions in Canada.

● *Unemployment* during the winter of 1961 reached the highest figures in Canada since the depression era of the nineteen thirties with a total of 700,000 jobless in a country with a population of about eighteen millions. But this unemployment was largely concentrated in certain industrial areas in Eastern Canada and in the province of British Columbia on the Pacific Coast.

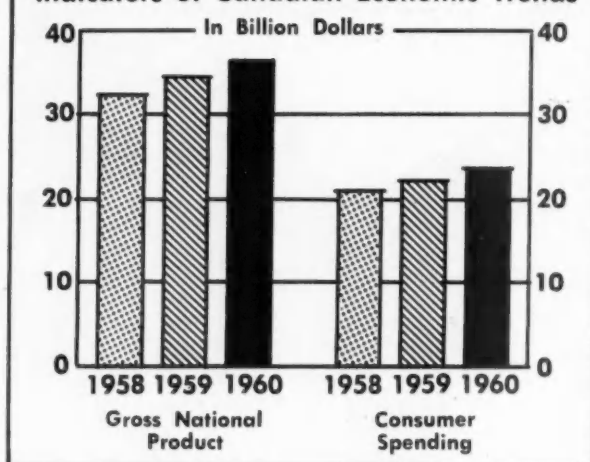
The Vagaries of Export Trade

Export trade which is of vital importance in a country with a small population and a high productive capacity as Canada, showed a considerable improvement in the year 1960, being about 6% higher than in the preceding year. Exports in the first quarter of 1961 were down from year-ago levels, and this is worrying some business observers. *Canada's trade deficit narrowed* considerably during 1960 dropping from \$380 millions in 1959 to \$100 millions.

Canadian export trade to the United States underwent a decline, being about 3% lower than in 1959. This was largely due to the lessened demand in the United States for certain Canadian natural products whose exports to the United States have been large in recent years, such as lumber and copper. The decision of the American Government to discontinue its purchase of Canadian uranium in the year 1962 also had a very adverse effect on some of the mining communities in Northern Ontario and Manitoba which are almost totally dependent for their prosperity on the sale of this metal. The Canadian Government has been trying to find substitute markets for its uranium chiefly in the United Kingdom but thus far not with complete success.

● On the other hand, *Canadian export trade to the United Kingdom* and some of the countries of Western Europe was at very high level in 1960, and this was more than sufficient to offset the decline of trade to the United States. Some of the important Canadian exports to the United Kingdom at the present time include wheat, aluminum, copper, nickel, newsprint and lumber. Because of this development the Canadian Government at the present time is keenly concerned about the possible effects on Canadian export trade of the creation of

Indicators of Canadian Economic Trends



the *Common Market trading area* on the continent of Europe and of the possible entrance into that scheme of the United Kingdom.

At the present time Canada has tariff preferences for its exports in the United Kingdom market which date back to the period of the nineteen thirties. But these may be wiped out if the United Kingdom enters the Common Market Scheme. In the case of the European countries which have already entered the Common Markets, such as France and West Germany, Canada has more to lose from the new Common Markets tariffs which this region will adopt against imports from North America than it will gain from the ones which may be lower under such a scheme.

Higher Tariffs Ahead

● In the meantime, Canadian export trade in some regions of the world in manufactured goods continues to suffer from the competition of lower cost products in regions of the globe such as Japan. Indeed, many observers in Canada say that Canadian industrial exporters will be forced to lower their production costs considerably if they hope to compete effectively in certain world markets.

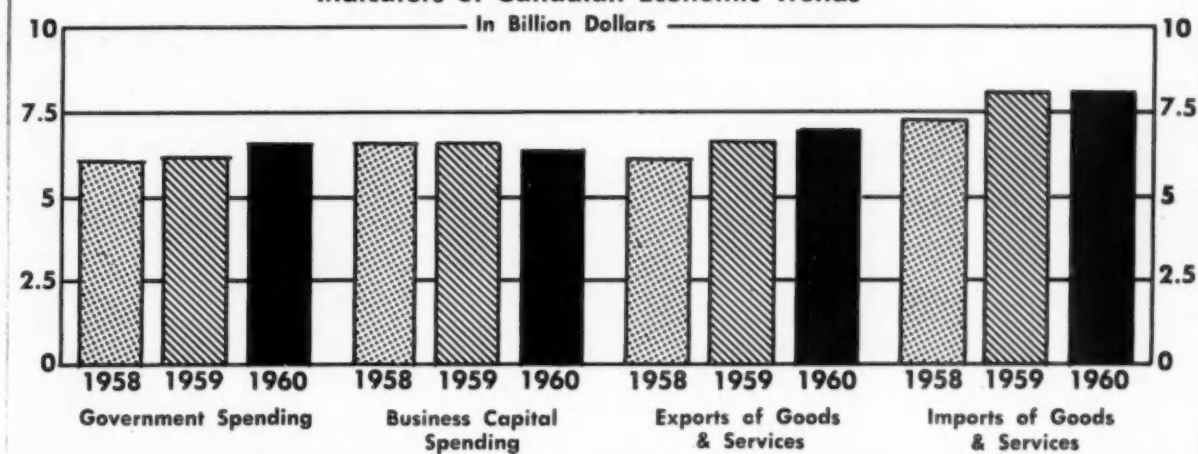
● Some Canadian industries, notably textile manufacturing, have suffered severely from the competition of lower cost foreign imports particularly from the Asiatic countries. They have been asking the Canadian Government for increased protection. Consequently, during the past few weeks, the Deifenbaker Administration in Ottawa introduced new tariff legislation into the Canadian Parliament with the aim of preventing the dumping of foreign manufactures in the Canadian market.

Conditions Vary Area by Area

As we have said, economic conditions in Canada vary widely from region to region and from industry to industry. The development of the rich iron ore and other mineral reserves in the wilderness of Northern Quebec slackened somewhat in pace during the year 1960 chiefly because of the depressed conditions in the steel industry in the United States.

● *Iron ore shipments* from this region of Canada

Indicators of Canadian Economic Trends



to the United States were lower than in 1959 because of this factor, but nevertheless there is a great deal of prospecting for new mineral deposits in Northern Quebec at the present time. In 1960 the Quebec Cartier Corporation, a subsidiary of the United States Steel Corporation, completed a very important iron ore mining project at Lake Jeannine in the area to the north of the Gulf of Saint Lawrence which will substantially increase the volume of iron ore production in Northern Quebec.

● **Nickel**, which is one of Canada's most important mineral exports, had a good year in 1960 largely because of the increased demand for this raw material in British and Western European markets. The International Nickel Corporation has almost completed, at Thompson in Northern Manitoba, one of the largest nickel production operations on the face of the globe and this will help to increase substantially, Canada's total nickel production capacity.

● In Western Canada in the provinces of Alberta and British Columbia, the **natural gas industry** is expanding at a very rapid rate at the present time largely because of the opening up of new markets for Western Canadian gas through the completion of new pipe lines to markets in California and the American Pacific Northwest States. Natural gas production in Western Canada reached a new record high of 535 billion cubic feet valued at \$50 million in 1960—a 25% increase over the 1959 figures. Important and rich new natural gas fields are being brought into production in Northern Alberta and British Columbia at the present time.

● The **Western Canadian oil industry**, on the other hand, continues to be in a state of stagnation largely because of the failure of the Canadian Government to find new markets for this product.

● In the field of **hydro-electric power** production, vast new projects are now being developed under the direction of the Quebec Hydro Corporation along the rivers of Northern Quebec and in British Columbia on the Pacific Coast. The recent ratification by the Canadian and the American Governments of the new international agreement concerning power development on the Columbia River both on the Canadian and the American sides of the international

boundary, should increase substantially the power capacity in Canada's Pacific Coast province.

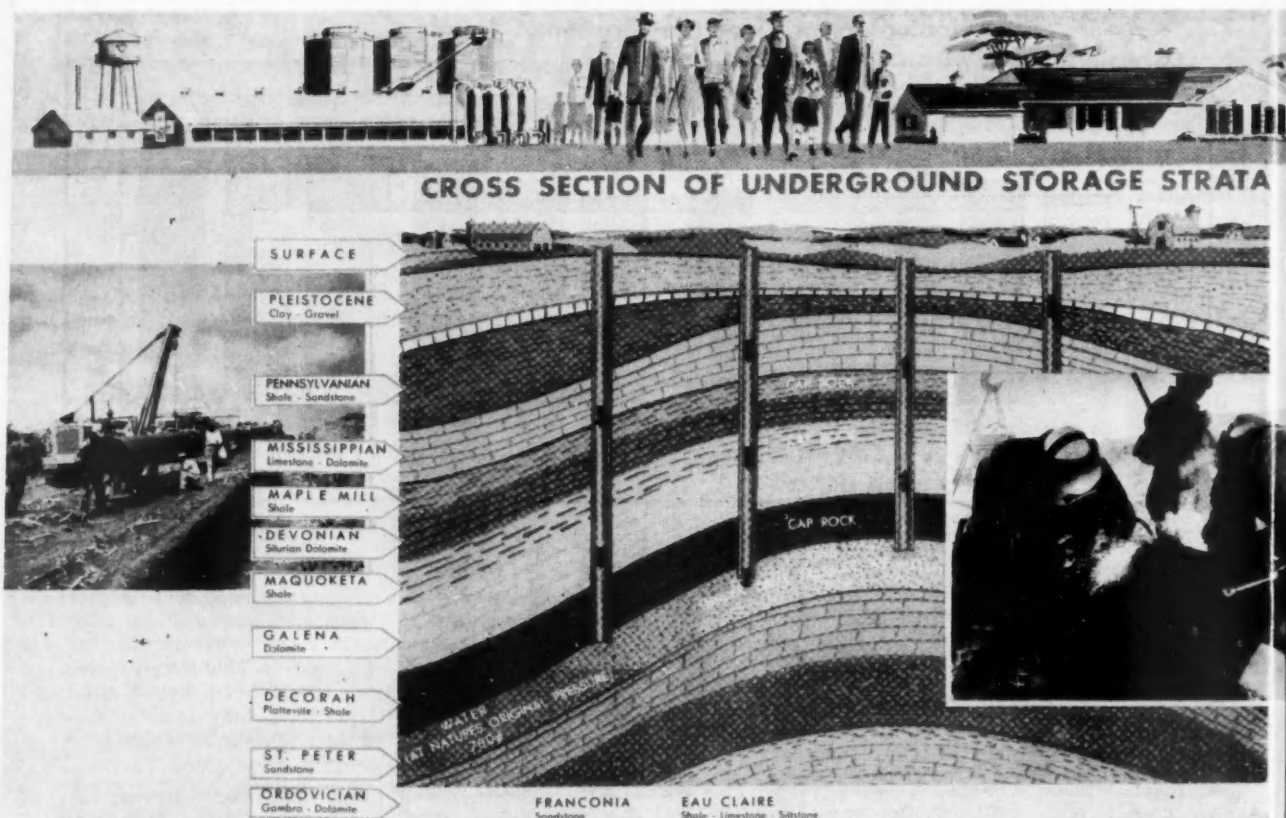
● The **pulp and paper industry** which is one of the most important in Canada from the standpoint of the value of its products and the number of employees, enjoyed a good year in 1960. Newsprint is Canada's largest single export to the United States. Newsprint production for 1960 was about 5% above the preceding year and newsprint shipments to the U.S. were also above 1959.

● On the other side of the picture, however, the **coal industry** which is centered in the Maritime provinces on the Atlantic Coast and in Alberta and British Columbia in Western Canada, continues to be in a seriously depressed condition largely because of the increasing competition of lower priced imports and the gradual shift of railroads in Canada from coal to other types of fuel.

The situation of **Canadian agriculture** in the Prairie provinces of Manitoba, Saskatchewan and Alberta where the bulk of Canadian wheat production is located, was greatly aided by the recent deal which the Canadian Government made with China by which the Canadian Government provided the Chinese Government with credits for the purchase of wheat and barley to the extent of 167,000 bushels of wheat and 46,700,000 bushels of barley at a total price of \$362,000,000. This deal will dispose of a considerable proportion of the Canadian wheat surplus whose existence has been a serious problem for the Canadian Government during the past few years.

Discouraging U. S. Investors Can Slow Down Canada's Economic Progress

The question of the future of American investment in Canada continues to be a subject of much discussion both in national political circles in Ottawa and throughout the country as a whole. In December 1960 the Deifenbaker Administration for the first time introduced in the Canadian Parliament a measure which was detrimental to American investors in Canada by placing a 15% withholding tax on Canadian dividends going to foreign investors, mostly in the United States. The (Please turn to page 392)



VARYING INVESTMENT STATUS FOR COMPANIES IN NATURAL GAS INDUSTRY

By JOHN PINTARD

- ▶ How close is industry to end of expansion phase that began in the late 1930's?
- ▶ Sharply increased research and development designed to intensify sales in present markets — and expansion into new fields
- ▶ With regulatory problems still unsolved — pipelines moving into other lines — new phases of integration
- ▶ Investment-speculative status for individual companies — those in the best position

AFTER almost six years of continued confusion there are signs that the investor may again be able to evaluate prospects for the natural gas industry with less uncertainty. A pattern of decisions is slowly emerging from the regulatory benches and seems likely to be generally sustained by the courts. Management strategies for operations under the new rules and the future status of the industry also are becoming more distinct. The picture the investor now sees, however, is quite different from that presented by the dynamic, burgeoning group of companies that vied for his capital a decade ago and which provided, in a short space of time, many handsome profits.

Cost-of-Service Approach Deemed Unsatisfactory

Probably the single most important development in evaluating the industry is the policy statement of last fall by the Federal Power Commission in the matter of area pricing for producers. Attached to the long awaited Phillips Petroleum Company rate decision, this paper, together with language in the rate order itself, declared that five years of investigation had satisfied the Commission that use of a utility type cost of service approach was impractical for the pricing of natural gas. Using other guidelines the Commission proceeded to outline limits for prices in several geographic areas based on existing contract prices, costs of finding and developing the

Statistical Summary of Natural Gas Companies

PIPE LINES (Some Production)

	Earnings Per Share*				Dividend Per Share		Price a Year Ago	Recent Price	Div. Yield	Price Earnings Ratio††	Price Range 1960-1961
	1959	Yearly 1960	1st Quarter 1960	1961	1960	Indicated 1961†					
El Paso Natural Gas	\$1.33	\$1.92	\$.60	\$.43	\$1.10	\$1.30	31	27	4.7%	14.0	30%-21½
Mississippi River Fuel	2.44	2.30	.55	.51	1.60	1.60	31	40	4.0	17.3	40%-30
Northern Natural Gas	1.92	2.20	.87	.81	1.40	1.40	28	40	3.5	18.1	43 -26½
Panhandle Eastern Pipe Line	2.33	3.05	.90	1.01	1.80	1.80	42	43	4.1	14.1	56%-40
Southern Natural Gas	1.85	2.20	.64	.71	2.00	2.00	35	46	4.3	20.9	47%-33½
Tennessee Gas Transmission	1.28	1.35	.27	.30	1.02 ³	1.12	23	23	4.8	17.0	25%-20½
Texas Eastern Transmission ..	.74	1.04	.30	.33	.70	.80	14	19	4.2	18.2	20%-13½
Texas Gas Transmission	2.33	2.59	.77	.68	1.42	1.50	33	35	4.2	13.5	38%-29½
Transcontinental Gas P. L. ...	1.23	1.18	.33	.28	1.00 ³	1.00	20	23	4.3	19.4	25 -19½

INTEGRATED COMPANIES

American Natural Gas	1.82 ¹	1.96 ¹	1.82 ²	2.14 ²	1.04	1.20	25	39	3.0	19.9	41 -22½
Arkansas-Louisiana Gas	1.72	1.61	.69	.63	1.00	1.00	33	43	2.3	26.7	44%-29½
Colorado Interstate Gas	1.71	1.96	.80	.81	1.25 ³	1.25	35	40	3.1	20.4	48 -31½
Columbia Gas System	1.35	1.51	1.41 ²	1.59 ²	1.02	1.10	19	26	4.2	17.2	27%-18½
Consolidated Natural Gas ..	3.36	3.19	3.17 ²	3.07 ²	2.20	2.30	43	56	4.1	17.5	61½-42½
Lone Star Gas	1.20	1.28	1.06	.97	.90	1.00	19	26	3.8	20.3	29 -17½
National Fuel Gas	1.74	1.86	1.15	1.04	1.20	1.20	22	27	4.4	14.5	30½-21½
Oklahoma Natural Gas	1.92	2.16	2.19 ²	2.06 ²	1.28	1.40	27	35	3.8	16.2	36%-24½
Peoples Gas Lt. & Coke	3.98	4.28	2.03	2.32	2.37	2.60	63	79	3.2	18.4	85 -54½
United Gas Corp.	2.27	2.26	.80	.84	1.50	1.50	28	35	4.2	15.4	39 -27½

RETAIL DISTRIBUTORS

Alabama Gas Corp.	1.85	2.45	2.44 ²	2.34 ²	1.60	1.60	28	34	4.7	13.8	35%-27½
Brooklyn Union Gas	1.67	1.75	1.09	.91	1.20	1.20	27	36	3.3	20.5	39%-25
Laclede Gas Co.	1.10	1.55	1.60 ²	1.45 ²	.97	1.05	22	33	3.1	21.2	34 -13½
Northern Illinois Gas	1.80	2.04	1.94 ²	2.36 ²	1.15	1.40	34	56	6.0	27.4	57½-28½
Pacific Lighting	2.64	3.43	3.03 ²	3.05 ²	2.40	2.40	48	56	4.2	16.3	57½-46½
Washington Gas Light	3.50	3.79	3.90 ²	4.18 ²	2.32	2.40	47	69	3.4	18.2	76½-45½

†—Based on latest dividend rates.

††—Based on 1960 earnings per share.

*—Includes revenues collected and expenses paid subject to refund.

1—Adjusted for 2½ for 1 stock split.

2—12 months to 3/31/61.

3—Plus stock.

Pipe Lines

El Paso's merger with Pacific Northwest Pipelines is now pretty well digested. For the first time, however, competition is entering its market, while regulatory activity is also being stepped up.

Mississippi River Fuel: this company also has extensive oil interests, provides well-drilling materials and possesses a speculative fillip in its ownership of 20% of Missouri Pacific R.R. Class A.

Northern Natural Gas: the company's cold-weather market area has been reliable but not dynamic. Recently, however, Northern obtained a 16% interest in one of the new pipe lines invading the Pacific Coast, and may be entering a more active phase.

Panhandle Eastern has suffered several recent regulatory shocks and has substantial amounts subject to refund or in litigation. However, the \$1.80 dividend should be quite secure. The one seventh ownership of National Distillers adds interest.

Southern Natural Gas: the formerly unprofitable offshore operations are now earning money. In its warm-weather area the ultimate market must be largely industrial, but gas air-conditioning could become important.

Tennessee Gas Transmission has been particularly aggressive, invading many "new" territories. Its proposal to build a second major pipe line to southern California is under FPC consideration.

Texas Eastern, owner of the pioneer "Big Inch" lines, supplies the Middle West and Northeast from the Gulf Coast field. Exploration for oil is being conducted.

Texas Gas Transmission has greatly improved its formerly adverse load factor by the construction of six storage fields, with more to come. Regulatory problems are at a minimum.

Transcontinental Gas P.L.: In a significant Supreme Court decision this company recently lost its application to supply Consolidated Edison. A 30% owned affiliate for the extraction of sulphur from acid gas began operation last fall.

Integrated Companies

American Natural Gas, despite Panhandle's reluctance to supply it, has recently attained access to several important new fields, including the Canadian. Large underground storage reservoirs are also utilized.

Arkansas-Louisiana has pushed diversification further than any other gas company. Some activities, like the manufacture of air conditioning equipment, have a tie-in with gas; others are entirely unrelated. Regulatory problems are at a minimum.

Colorado Interstate Gas enjoys a particularly strong reserve position. A proposal to build a new major line to southern California in co-

operation with El Paso is awaiting final decision by regulatory authorities.

Columbia Gas System, the largest member of the industry, is reorganizing its operating subsidiaries to make each subject to regulation in a single state only. Primarily attractive for income.

Consolidated Natural Gas, a "liberated" Standard Oil component, has been successful in shifting main supply areas from the Appalachians to southern fields, and is collaborating with Mississippi River Fuel in a joint exploration program.

Lone Star Gas, with operations confined to Texas and Oklahoma, experiences scant regulatory difficulties. An active research department is promoting new gas uses. Better than average growth prospects.

National Fuel Gas serves a primarily residential load in a cold-weather area in western New York and adjoining areas of Pennsylvania and Ohio. Offers relatively liberal income.

Oklahoma Natural Gas: restriction of operations to a single state simplifies regulation, although certain large industrial customers are protesting higher rates reflecting heavier supply costs. Sales of air conditioning equipment, other gas appliances being pushed.

Peoples Gas Light, the large Chicago distributor, is strongly entrenched through its control of reserves and one major pipe line system. Although first quarter (winter) earnings are misleading, another dividend increase would be no surprise.

United Gas Corp.: affected by several adversities recently—heavy dry hole charges, loss of four large industrial customers to competition, and a sharp reduction by the FPC of rates being collected subject to refund. Possesses relatively broad diversification.

Retail Distributors

Alabama Gas has large industrial load, should experience steady growth.

Brooklyn Union, primarily residential, enjoys a steady market, should benefit further if it can promote gas air conditioning.

Laclede Gas, supplying the St. Louis area, possesses an extensive underground storage system of value in meeting its peaks at lower cost.

Northern Illinois Gas enjoys a favorably balanced and rapidly growing service area and has just placed its large Troy Grove underground reservoir in operation.

Pacific Lighting, historically supplied by El Paso, is seeking alternate sources via Tennessee Gas. Southern California population growth an important plus factor.

Washington Gas Light has been disappointed in efforts to obtain nearby storage facilities. However, service area is ideal: cold in winter, hot and muggy in summer. Thus, should experience steady growth.

fields, and quantity and quality of the gas. Producers who are willing to sell at the approved area price will have their contracts approved by the Commission without further extended hearings.

At this writing the Commission has conducted one hearing on the use of area prices in the Panhandle area of Texas and has scheduled another for the southern Louisiana fields. While many details remain to be worked out the major producers seem willing to try to make this new approach succeed. As opposition from some municipalities and politically motivated authorities still persists the principles will, in all probability, be tested in the courts. These contesting groups have put forth no new suggestions and are increasingly on the defensive, a circumstance which suggests the acceptance of the area pricing concept.

Consumption Gaining on Supply

Inextricably entwined with the question of producer pricing is that of supply. Thus far adequate supplies of gas have been available for expansion of the industry, although consumption has been rising faster than discoveries. Total proven reserves in the United States are about 263.7 trillion cubic feet compared with 262.5 trillion for 1959, but drilling activity in this country has been at reduced levels for several years now, compared with the peak of the 1955-56 period. In part this is explained by low allowables for oil production and the world oversupply of petroleum. In the past three years, however, the number of gas wells completed has been rising in relation to total wells drilled. On the assumption that the price levels proposed by the FPC are not changed radically by the courts and that future higher costs will be recognized there is no reason to expect producers will forcefully curtail sales of gas in the future.

While the supply picture is of basic importance—as it will ultimately aid in stabilizing prices—it is the transmission and distribution companies that are of greater interest to the investing public, as few major producers derive a large portion of their income from sales of natural gas. The pipelines and local retailers, however, are still directly affected by producer regulation.

Further Growth from Intensification of Present Markets

Last year pipelines and distributors continued their expansion, spending about \$2.2 billion compared with \$1.7 billion for the previous year. Longer term forecasts contemplate a continuation of expenditures of \$2 billion to \$2¼ billion in each of the coming several years. While additional pipeline facilities are included in this estimate they are likely to be less important than in the past. Additional expenditures will be directed largely toward new and enlarged underground storage facilities, an indicated \$2 billion over the next ten years, and for extending and strengthening local distribution systems.

The gas industry is approaching the end of an expansionary phase that began in the late 1930s. Today over 21 million residential customers out of a potential 25 million heat their homes with gas. All major areas of the country now have natural gas available. Important future growth must, therefore, come from new home construction, which could provide a base for connection of 2% to 3% more

Financial Statistics Comparing

	El Paso Natural Gas	Northern Natural Gas
PLANT VALUE (MILLIONS) GROSS	\$1,649	\$592
Depreciation Reserve	324	135
Net Plant Account	1,325	457
CAPITAL RATIOS (%)		
Funded Debt to Total Capitalization *	67	55
Preferred Stock to Total Capitalization	11	12
Com. Stock & Surplus to Total Capitalization	22	33
ANALYSIS OF REVENUES (%)		
Natural Gas (Prod., Transmission & Distrib.)	77	97
Crude Oil Production	10	1
Oil Products & Other	16	2
INCOME ACCOUNT (CONSOLIDATED)		
Gross Revenues (Millions)	\$504	\$188
Natural Gas & Petroleum Prod. Purchased	189	65
Operating Expense	95	35
Maintenance	17	4
Depreciation, Amort., and Depletion	60	21
Development Expense	13	—
Federal Income Taxes	21	24
Net Operating Income (after all taxes)	94	30
Gross Income	95	31
Gross Income as of a percentage of total capitalization	7.3%	6.3%
Fixed Charges	\$ 41	\$ 8
Net Income	51	22
EXPENSE RATIO (%)		
Ratio Depreciation to Gross Revenues	12	11
Comb. Deprec., Depl. & Maint. to Gross Rev.	15	13
Development Exp. (Explor. Dry Holes, etc.)	2	—
Operating Ratio (Including taxes)	81	83
EARNINGS RATIO		
No. of Times Fixed Ch'ges Earned after Taxes	2.3	3.7
Common Stock—Dividend Payout (%)	67	63

*—Includes bank loans for some companies.

customers annually and from development of additional gas fired appliances. Sales to new homes seem relatively assured as gas still sells at a material discount from other fuels in much of the country, and is considered worth some premium in more competitive areas. Incremental sales to current customers also are receiving increasing attention from management. Active promotion of gas ranges, refrigerators, incinerators and others is aiding the industry in holding its position in relation to electric-powered devices. Introduction of a broad line of such appliances by RCA Whirlpool, and more recently the Norge division of Borg Warner, has been helpful. These companies among others are actively engaged in product research to make the units more attractive and more efficient. Nonetheless, most gas appliances still sell at premium prices and further development work is necessary.

New Uses Being Pushed More Aggressively

As noted in these columns before, gas air conditioning remains the most important prospective

the Position of Leading Natural Gas Companies

	Integrated Companies												Retail Distr.	
	Pan-handle Eastern Pipe-Line	Tenn. Gas Trans- mission	Pipe Lines Texas Eastern Trans- mission	Texas Gas Trans- mission	Trans- Continental Gas Pipe Line	Amer. Natural Gas	Arkansas Louisiana Gas	Columbia Gas System	Con- solidated Natural Gas	Lone Star Gas	Peoples Gas Light & Coke	United Gas Corp.	Brooklyn Union Gas	Northern Illinois Gas
\$592	\$310	\$1,902	\$995	\$306	\$684	\$908	\$228	\$1,355	\$833	\$441	\$836	\$922	\$217	\$317
135	120	366	198	76	106	164	73	294	211	143	234	307	47	61
457	190	1,536	797	230	578	744	155	1,061	622	298	602	614	170	256
55	53	57	62	60	65	61	43	55	42 ²	50	55	56	53	47
12	3	12	15	13	14	—	12	—	—	3	5	—	8	10
33	44	31	33	27	21	39	45	45	58	47	40	44	39	43
97	96	65	84	97	100	100	61	98	98	86	99	87	100	100
1	2	7	12	—	—	—	4	—	—	7	—	5	—	—
2	2	28	4	3	—	—	35	2	2	7	1	8	—	—
188	\$140	\$555	\$316	\$133	\$171	\$240	\$114	\$517	\$363	\$131	\$239	\$389	\$ 96	\$130
65	69	257	156	74	73	60	32	233	176	35	59	207	29	55
35	20	90	39	15	23 ¹	54	11	85	78	28	50	71 ¹	24	23
4	5	10	7	2	—	8	2	19	10	6	8	—	6	4
21	10	63	37	10	18	26	6	37	20	14	24	28	4	6
—	—	—	—	3	—	—	1	—	—	2	—	9	—	—
24	12	25	20	9	16	29	11	45	23	11	33	9	7	14
30	19	91	48	15	34	44	20	71	36	23	42	46	12	19
31	26	96	49	15	35	46	21	71	40	23	43	46	12	20
6.3%	9.8%	6.6%	6.6%	7.2%	6.2%	6.7%	13.9%	6.7%	6.0%	8.1%	7.3%	6.7%	7.0%	8.0%
8	\$ 5	\$ 32	\$ 25	\$ 6	\$ 14	\$ 15	\$ 3	\$ 24	\$ 10	\$ 6	\$ 13	\$ 16	\$ 3	\$ 4
22	21	61	25	9	19	29	16	45	29	17	25	29	9	16
11	8	11	11	7	10	11	5	7	6	11	10	7	4	5
13	11	13	14	9	—	13	6	11	8	15	13	—	9	7
—	—	—	—	2	—	—	1	—	—	1	—	2	—	—
83	86	83	84	88	80	81	82	86	90	82	82	88	88	85
3.7	5.2	3.0	2.0	2.5	2.3	3.0	5.9	2.9	3.7	3.6	3.2	2.9	4.2	5.4
63	58	83	76	58	85	61	62	73	72	78	60	66	68	68

¹—Combined operating and maintenance expenses.

²—Includes loans for construction.

device for increasing sales. Arkla-Servel, a subsidiary of Arkansas Louisiana Gas Company, remains the prime producer of central air conditioners for residential installations, and this year is introducing a broader product line designed to reach previously untapped markets. Others in this field are Bryant Division of Carrier Corp. and RCA Whirlpool; the latter is scheduled to field test a new unit this summer. The belated recognition of the value of the air conditioning market as well as the dire consequences of not sharing in it has stimulated many promotional and sales efforts and the outlook is considered quite favorable.

Further recognition of the longer term aspects of the marketing problem may be seen in the sharply increased research and development budgets in the industry. Totalling only several hundred thousand dollars a few years ago expenditures now aggregate \$7¼ million dollars and seem to be still rising. For the most part the money is being spent to encourage consumer acceptance of the product and to provide a wider range of devices for placement in the home.

Work is also being undertaken on development of industrial uses, some of which show exceeding promise. Here, however, the cost of gas at the point of use is an important factor in determining the prospects for future sales, and the rise in field prices in recent years is limiting the market.

Pipelines Entering More Stable Phase

The regulatory picture for the pipeline companies also has been somewhat clarified by a number of recent rate decisions by the FPC. In about six cases the Commission has authorized returns of 6.2% to 6.5%, but these have been based on a return of slightly over 10% to the common equity. The latter figure compares with equity returns of 13% to 15% permitted on thinner equities about ten years ago. Thus, despite the commitment by investors of many millions of dollars the return permitted, the equity holder has been substantially reduced. Simultaneously, however, the future risk has been reduced. It is not anticipated that the overall returns will be reduced below the 6¼% (Please turn to page 394)



WITH TAXES
PAID
WHISKEY
COSTS YOU
\$4.27

TAXES
Paid
\$2.38

WHISKEY
PRICE
\$1.89

WITH TAXES
PAID
MOONSHINE
WOULD COST YOU
\$4.81

TAXES
Dodged
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MOONSHINE
PRICE
\$2.43



To What Extent...

IS RUN-UP IN LIQUORS PURELY SEASONAL?

— With diversification no panacea ... problems of taxes and moonshine still unchanged ... what offsetting factors exist in increased consumption and future market growth ... where the individual companies stand today and looking to 1962

By RALPH COX

TOGETHER with most of the market, the distilling stocks have experienced a good run-up this year, and several issues are now selling near their all-time highs, after moving up 30% or more from their 1961 lows. Is this new enthusiasm on the investor's part justified, particularly after years of ignoring the industry, or has some of the general re-evaluation of share prices merely spilled over into the distilling stocks? The price rise cannot be attributed to a recognition of the growing importance of diversification. Companies such as **American Distilling, Brown-Forman Distillers** and **Hiram Walker**, which have shown advances at least as good as the entire group, are still liquor companies with little or no interest in other fields.

National Distillers & Chemical, the most diversified company of the group, has recorded the most modest increase in price and currently sells about midway between its 1961 high and low. Neither can the renewed interest in distilling be attributed to

any lessening of the heavy burden of taxes the industry must bear. The Federal tax is unchanged, and there seems little prospect of early relief. As a consequence, moonshine liquor is still able to undersell the legal product by a wide margin, providing formidable competition. On the other hand, consumption has at least exceeded by a modest amount the previous all-time record set back in 1946.

This fact in itself is not particularly important—apparent consumption was only about 1½% higher than in 1946—but 1960 did mark the third year in a row in which consumption increased. As a portent of the industry's future this new record could have considerable importance. With this in mind, suppose we examine some of the factors likely to influence future results for this industry.

Taxes and Moonshine

Unfortunately for the distillers, both taxes and moonshine are problems that seem likely to be with

Statistical Data on Leading Distillers

	Full Years				1st Quarter		Dividend		Price Range	Recent Price	Div. Yield
	Net Sales		Net Per Share	Earned Per Share	Per Share						
	1959	1960			1960	1961	1960	1961			
	(Millions)		1959	1960	1960	1961	1960	1961	1960-61		
American Distilling	\$89.7 ¹	\$ 93.6 ¹	\$2.06 ¹	\$2.38 ¹	\$1.27 ²	\$1.31 ²	\$.85	\$1.00	47½-21½	47	2.2%
Brown-Forman Distillers	92.4 ³	101.7 ³	.96 ³	1.18 ³	.64 ⁴	.65 ⁴	.40 ⁵	.40	21 -11½	20	2.0
Distillers Corp.-Seagrams	731.3 ⁵	768.2 ⁵	3.11 ⁵	3.25 ⁵	2.29 ¹⁰	2.36 ¹⁰	1.70	1.70	41½-28¾	40	4.2
National Distillers & Chem.	751.3	722.3	2.23	1.92	.54	.42	1.20	1.20	35½-24¼	28	4.2
Publicker Industries	118.3	123.3	d .61	.46	d .08	d .08	9	—	14 - 7¾	11	—
Schenley Industries	460.0 ⁶	381.5 ⁶	3.07 ⁶	1.30 ⁶	.95 ⁷	1.03 ⁷	1.00 ⁸	1.00	37¾-19½	31	3.2
Walker (H.) - G. & W.	412.1 ⁶	440.1 ⁶	2.76 ⁶	2.91 ⁶	1.50 ⁷	1.59 ⁷	1.75	1.40	50½-35½	50	2.8

d—Deficit.

1—Years ended Sept. 30.

2—6 months ended March 31.

3—Years ended April 30.

4—6 months ended Oct. 31, 1959 & 1960.

5—Years ended July 31.

6—Years ended August 31.

7—6 months ended Febr. 28.

8—Plus stock.

9—Paid 5% in stock.

10—9 months ended April 30.

Company Ratings

	Rating		Rating
American Distilling	B1	Publicker Inds.	D4
Brown-Forman	B1	Schenley Inds.	C3
Distillers Corp.-Seagrams	B2	Walker (H.)-G.&W.	A1
National Distillers	B4		

RATINGS: A—Best grade.
B—Good grade.

C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.

3—Earnings up from lows.
4—Lower earnings trend.

the industry for some time to come. Distilled liquor is probably the most heavily taxed product manufactured in this country. The \$10.50 per proof gallon tax exceeds the distillers' wholesale price by a wide margin and with the addition of state taxes comprises more than half the retail price of the product. The industry has the unwelcome distinction of being one of the largest contributors to the Federal Treasury. Its contribution would be even higher were it not that these top heavy tax payments sharply limit the consumption of legal spirits and encourage the production of moonshine.

Illegal production is no simple matter of a few picturesque hillbillies cooking up a batch of home brew in a remote mountain glen. The industry estimates that moonshine accounts for 20-25% of all liquor consumed. If the legal distillers could only capture any sizable portion of these approximately 60 million gallons, the effect on earnings would be dramatic, as there is plenty of unused capacity in the industry.

Presently there seems little prospect of any reduction in the Federal excise tax despite the industry's contention that reduction would increase Federal revenues by lowering retail prices sufficiently to shift consumption from tax-free moonshine to legal liquor. A more likely avenue of relief and one the industry is clamoring for with considerable justification is better enforcement of the liquor laws. The addition of a few more "revenueurs" should repay many times over their added cost. The Treasury is well aware that money spent on enforcement is an investment that provides an excellent return. With the prospect of ever-rising Federal budgets, it seems reasonable to expect the Government to maximize its revenue from existing taxes in order to lessen the need for new levies. Should it do so, both the industry and the Bureau of Internal Revenue will benefit. All in all there is justification for some encouragement on this point, although illegal competition is not apt to be eliminated completely as long as the present level of taxation remains.

Diversification No Panacea

A few years ago diversification appeared a logical step for the liquor companies to take. Capacity was more than adequate, consumption over any extended period of time could hardly be expected to grow much faster than the population, and production and marketing were hedged with myriad restrictions and regulations. Clearly the distilling companies, if they wished for anything more than average growth, would have to look to new fields. And they did so. National Distillers & Chemical entered the chemical and rare metals industries, Distiller Corporation-Seagrams devoted some of its capital to the exploration for and production of oil and gas, and Schenley began the manufacture of ethical and proprietary pharmaceuticals among other activities.

Results thus far at least provide reason to question the wisdom of some of these decisions. The expected growth from diversified activities has failed to materialize. Distillers-Seagrams' oil and gas operations have never contributed more than a few cents to per share earnings in any one year. National Distillers' chemical and metals business has grown to an impressive size but so have the number of shares outstanding. During 1959 and 1960 lower chemical earnings, which offset excellent gains on the part of the beverage division, depressed overall results. Schenley sold its ethical drug business to Rexall last year, apparently concluding it had more to gain from the ownership of 120,000 Rexall shares than from operation of the division itself. American Distilling and Hiram Walker, on the other hand, have stuck to the liquor business with highly gratifying results.

There remains, of course, the possibility that one or more of these newer activities might develop into a real money-maker. Seagrams could bring in an important new oil or gas field. Better prices or new markets for National Distillers' chemicals would increase the division's contribution to earnings, and Schenley's interest in Rexall and Pabst should grow

in value over the years. Currently, however, diversification represents more of a potential plus factor for the future than a present determinant of earnings.

Blends vs. Straights

While total consumption of distilled spirits has been relatively static during the postwar years, shifting consumer preferences have brought a major change in the types of liquor sold. Whiskey accounts for the bulk of hard liquor consumption in this country. Before the war, straight whiskey was the most popular type, with blended whiskey representing less than 40% of domestic output. In order to stretch short wartime supplies the industry increased its output of blends until in 1946 they reached a high of 88% of total bottlings. Subsequently, drinkers reasserted a preference for straight and bonded whiskey. Last year the blends accounted for only 51% of bottlings and this percentage fell to less than half of the total during the first three months of 1961. Bonded and straight whiskeys grew in popularity, with bottlings of straights rising six-fold from 10 million gallons in 1956 to almost 62 million in 1960 while bonded whiskey output grew from 7.7 million gallons in 1946 to a high of 14 million in 1953 before it declined to last year's 9.4 million.

Growing Popularity of Imports

People have been drinking more imported liquor in recent years. Imports of foreign liquors, largely Scotch and Canadian whiskey, doubled during the past decade while consumption of gin also showed a good advance. Vodka scored a phenomenal increase in popularity with bottlings growing from less than 400,000 gallons in 1950 to more than 19 million last year. Recently several distillers marketed 86 proof bourbons in response to a trend away from the heavier, more expensive bonded bourbon toward lighter whiskeys.

All of these changes have had their effects on the fortunes of the different distillers. American Distilling and National Distillers saw their beverage sales grow as preference shifted towards the straight and bonded whiskeys in which they specialized. Distillers-Seagrams' progress, on the other hand, was retarded by the company's concentration on blends. Hiram Walker's well established position in Scotch and Canadian whiskeys allowed steady year-to-year growth.

Future Growth Ahead

There seems good reason to expect the distilling industry to do better over the next few years than it has in the past. The static record of over-all consumption may be attributed largely to the pattern of the birth rate. During the postwar years the number of young adults—those between the ages of roughly 21 and 49—changed only moderately, reflecting the low birthrate of the 1930's. Soon, however, the "war babies" born during the early 1940's will reach the age for legal consumption of liquor. Some of the growth already experienced in such fields as baby foods and textbook publishing should become apparent in distilling. Recognition of this factor might well explain, in part at least, the more favorable appraisal afforded the liquor stocks in recent months.

In spite of the recent interest in the industry,

most of the stocks still appear fairly priced in terms of today's market when related to recent and prospective near-term earnings. Distillers-Seagrams and National Distillers provide moderately liberal yields. Let us now turn to a discussion of some of the leading listed companies.

The Individual Companies

National Distillers & Chemical is in the process of changing from a liquor company with a heavy stake in chemicals to a chemical company with an important position in distilling. Last year's operating earnings were divided 79% liquor and 21% chemicals with the latter's share down from 37% in 1959 because of lower prices. As the company intends to concentrate future capital investment in chemical facilities, this division should in time outweigh the beverage business in importance.

Presently National is the second largest producer of polyethylene and the largest producer of industrial ethyl alcohol. The company also has an important position in heavy chemicals and recently entered the fertilizer field through two acquisitions. National's Kordite division is a leading converter of plastic packaging materials. A 60% interest in Reactive Metals provides a stake in rare metals. On June 14, stockholders will vote on the proposed merger with Bridgeport Brass.

The beverage division produces and imports a full line of spirits including several of the best selling brands. Concentration on straights and bourbons enabled beverage operations to show excellent progress in recent years. Further gains should be recorded in the future.

Eventually, National may come to be regarded as primarily a chemical rather than a liquor company. At such time its shares could well sell at a substantially higher multiple of earnings.

Hiram Walker-Gooderham & Worts operates distilleries in the United States, Canada, Scotland and Argentina. The bulk of sales are made in the U.S. market although the company does a world-wide business. Walker has not diversified into other fields.

Canadian Club, Ambassador, Old Smuggler, Balantine's and Imperial are among the company's leading brands of whiskey. In addition, Walker markets a line of gins, cordials, vodka, brandy, and rum.

A modest but steady year-to-year growth in earnings has been reflected in the market price of the company's shares. Continuation of past progress may reasonably be expected from this well managed, conservative company.

Distillers Corporation-Seagrams, Ltd. is the largest distiller. Joseph E. Seagrams, the company's U.S. subsidiary, accounts for about 90% of sales and half of earnings. The balance of earnings is derived from Canadian and world-wide sales. Seagrams produces and imports a complete line of spirits with emphasis on blended whiskeys. The shift in consumer preference away from blends is in large part responsible for the company's rather static sales and earnings record.

Diversification into oil and gas exploration has resulted in the discovery or acquisition of a number of producing wells, but thus far their contribution to earnings has been minor. At July 31, 1960, Seagrams carried its investment in oil and gas at \$23.9 million. Management has stated that it expects ultimately to recover its (Please turn to page 397)

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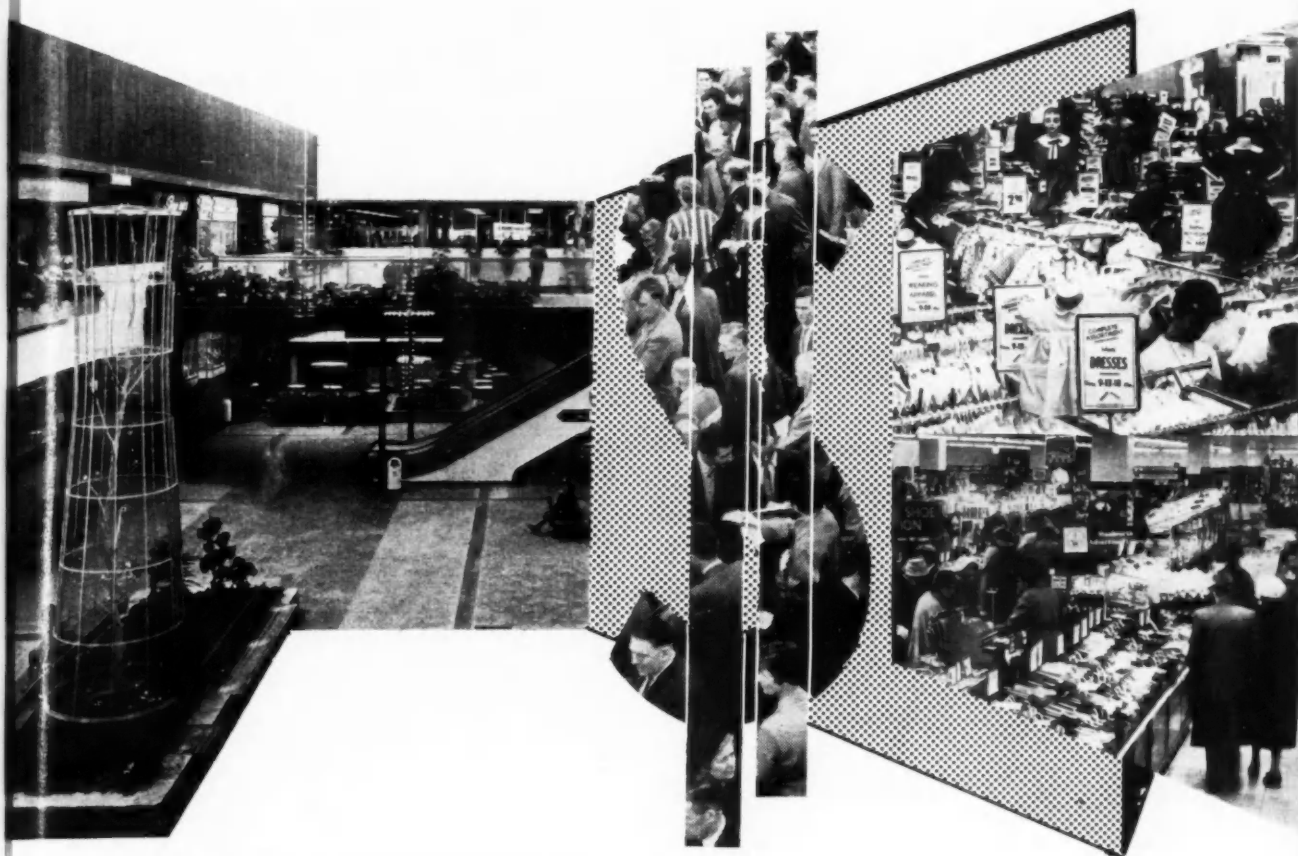
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Revolution in Retailing ...

AS HUGE VARIETY CHAIN INVADES DISCOUNT FIELD

By EDWIN CAREY

- ▶ As Woolworth strikes out boldly to challenge competition
- ▶ While other variety chains try new retailing methods — everything from credit to blue stamps at the "Five and Ten"
- ▶ Broad expansion for Woolworth — its position at home and abroad ... companies where further growth is likely ... where position is still speculative

WOOLWORTH stock has for years been one of the more sedate among the 30 elite issues that make up the Dow-Jones Industrial Average. However, on the historic day when the Average closed at above 700, for the first time Woolworth stepped out of character to give the Average a real boost. The 6½ point advance of the variety chain alone added a little over two points to the familiar stock index.

The occasion was President Kirkwood's announcement that Woolworth will set up a chain of discount stores that will be "the biggest discount house this country will ever see".

An Entirely New Approach

The statement rings with authority, and the ap-

proach is clearly different from that of any other variety chain. Some chains such as **H. L. Green** have already, to be sure, converted a few relatively unprofitable downtown "Five & Tens" into discount stores on a purely experimental basis. Woolworth, however, has set up a program that is far from experimental; it is definite in its goal for a nationwide discount chain. The operation will be kept entirely separate from the variety chain and will have a new name. The plan does not include conversion of any existing variety stores.

There is little doubt concerning the ability of this giant chain to enter the discount field in a big way. It is perhaps significant that on the day the Woolworth announcement was made **Korvette** stock sold off, losing nearly 4½% of its value before the

day's trading was over. As noted below, Woolworth, if it should so choose, could call upon a huge source of cash for this project.

It will, of course, require several years to set up a discount chain of this magnitude. Few details regarding the program have as yet been revealed, but it is known that the first store is scheduled for completion in 1961. Undoubtedly a larger number will follow in 1962, the average store to cover roundly 60,000 square feet, about twice as large as the new Woolworth stores.

Some question naturally arises concerning the various methods of financing available to the company. It is of interest that if the sale-and-lease-back route is taken, a number of stores could be set up with cash at hand. Many investors, especially shopping center developers, would be delighted at the opportunity to purchase a new Woolworth discount store and lease it back to Woolworth. The proceeds of the sale would then be used for inventory and to set up another store. The company's plan to lease some departments to concessionaires could also minimize the inventory burden. President Kirkwood indicated that appliance and shoe department would probably be leased out. (The appliance end accounts for 60% or more of sales of many discount houses.) With such an arrangement the invested capital per store can be kept relatively low, but the return on capital from lease could still be rewarding.

Huge Source of Cash Available

However, Woolworth is not strapped for capital. At the end of 1960 the huge chain, which controls some 3,500 stores both here and abroad, had \$61 million in cash, possibly \$20 million above operating needs. Retained earnings and depreciation generated cash of close to \$46 million in 1960, even after a non-recurring \$4.1 million write-off of expropriated Cuban assets, from which capital expenditures required \$42.6 million. Kirkwood indicated that the program for discount houses will be financed internally for the present, but he did not rule out the eventual possibility of outside financing.

Woolworth could also readily raise a substantial sum without borrowing if it chose to sell just part of its 52.7% interest in F. W. Woolworth Ltd. of England. This investment is worth some \$850 million in the British market, or about \$90 per domestic share. Recently a story appeared in the London publication, *Stock Exchange Gazette*, suggesting that a public distribution of this stock is a near-term possibility, but this was denied by the Woolworth management.

In the United States, Woolworth stock, despite its recent advance, sells for no more than the per-share value of this single investment. Thus, the entire American operation of some 2,075 stores, which contribute roundly one half of the company's earnings, as well as a profitable German operation and stores in other countries are in effect thrown in free when the investor buys F. W. Woolworth.

It is true that between 1950 and 1957 the American stores have grown at a much slower rate than the British chain. However, this situation seems to have changed. In 1959 and 1960 domestic stores were expanded aggressively. British Woolworth, which during World War II had declined to a relatively small operation with net before taxes of typically less than 6.0 million pounds, may have

completed its reconstruction (to a 1960 pre-tax net of 31 million pounds), and is now reaching maturity.

Could British Investment Earn More at Home?

The American company's share of British Woolworth earnings amounted to \$21.4 million in 1960, from which \$14.2 million in dividends was collected. But at the end of 1960 this investment was valued in the London market at a staggering \$845.4 million. This indicates an earnings appraisal of some 40 times after a 53% tax rate—a ratio that, for a retailing operation, is far out of line by American standards. It is extremely doubtful that Woolworth could get anywhere near current market prices if it decided to sell its entire holdings in the British company at one fell swoop. However, the divestment might be feasible over a period of years and if the proceeds were reinvested in the new discount operation at a 5% return on capital, a minimum expectation for discount stores, this would eventually add some \$42 million (\$4.30 per share) to Woolworth earnings, in place of the \$21.4 million equity in last year's earnings of the British subsidiary. (These earnings were consolidated for the first time in 1960.) This would represent a net increase of somewhat over \$2.00 per share in reported earnings, or a gain over 1960 results of about 45%. This would, of course, take several years to achieve, but the possibilities add a potential growth element to Woolworth that is not apparent in the variety chain as presently set up. If such a plan is behind the venture to establish "the nation's largest discount house", management has been careful not to tip its hand. Needless to say, this potential makes Woolworth rather intriguing.

Discount Houses Will Not Detract From Plans to Expand Variety Stores

It is of special interest that Woolworth has no plans to cut back the stepped-up program to add variety stores. In 1960 capital expenditures totaled \$42.6 million, the highest in six years, as the company opened 133 new stores in the U.S. President Kirkwood says that no slow-down in this program is contemplated and that about the same number of variety stores will be opened in 1961 as in 1960.

Other Variety Chains Stress Ready-To-Wear

Practically all new variety stores are now being located in shopping centers, and the store managers are finding that ready-to-wear centers in the "Five & Ten" are surprisingly popular. This is especially true in the case of children's wear, but many other types of clothing are also beginning to be sold.

Kresge has a newly established policy to greatly emphasize ready-to-wear. The introduction of a house dress for \$1.00 was met with instant success since, believe it or not, this dress was "offered in pleasing colors and styled to good taste". Such is the advantage of mass production and large-quantity buying of a single item. Following this entry Kresge broadened the line to include blouses, sweaters, jackets, suits, bathing suits, and coats. Smart, stylish clothes were advertised at the most economical prices anywhere. This, of course, is already a form of ready-to-wear discounting, and such merchandise may become more and more important in the total retail picture. In getting away from the "Five & Ten" concept it is of interest that in 1957 Kresge sold one type of rain coat for \$2.95, while

Leading Variety Store Chains

	1959		1960		Sales † 1st 4 Months To April 30		Indicated 1961 Div. *	Recent Price	Div. Yield	Price Range 1960-61
	Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	1960 (Millions)	1961				
Grant, W. T.	\$478.0	\$2.06	\$512.6	\$1.50	\$130.5	\$135.7	\$1.20	29	4.1%	39½-22
Green, H. L.	133.3	1.49	128.1	.59	23.5 ³	21.4 ³	2	29	—	32¼-18½
Kresge, S. S.	404.9	2.30	418.2	2.02	115.0	115.0	1.60	32	5.0	34½-27½
Kress, (S. H.) & Co.	154.4	.80	144.5	.19	41.8	38.9	—	21	—	34½-19%
McCrory Corp.	171.5 ¹	.61 ¹	232.0 ¹	.58 ¹	31.3 ³	32.7	.80	22	3.6	24½-12
Murphy (G. C.) Co.	238.8	4.44	245.5	3.46	66.2	65.6	2.30	50	4.6	53½-47¼
Neisner Bros.	69.7	.82	73.4	.18	20.3	20.2	.40	13	3.0	14½- 9½
Newberry (J. J.) Co.	238.0	3.32	265.8	2.42	69.7	67.6	2.00	46	4.3	46½-36¼
Woolworth (F. W.)	986.2	4.98	1,035.3	4.84	292.6	282.6	2.50	81	3.0	75 -59

*—Based on latest dividend rates.

†—First quarter earnings are not available.

¹—Formerly McCrory-McClellan Stores.

²—No 1961 dividend announcement yet.

Subject to terms of merger into McCrory Corp.

³—3 months to March 31.

W. T. Grant has substantially expanded its position in the general merchandising field in recent years and has aggressively expanded its junior department stores in suburban shopping centers. The broadening of merchandising lines and recent introduction of trading stamps enhances longer term outlook. **B1**

H. L. Green—Proposed affiliation with McCrory Stores to be voted on shortly. McCrory management is regarded as aggressive and the merger is expected to be beneficial. **C3**

S. S. Kresge Co. is adding new stores in favorable locations and is emphasizing self-service, enlarging merchandising lines and has introduced credit sales. It also plans to enter the discount merchandising field. Yield is good. **B2**

S. H. Kress: Recent change of policy and expansion program may reverse the downward trend of recent years but sufficient time will be required for worthwhile sales and earnings improvement. This issue has become quite speculative. **C3**

RATINGS: A—Best grade.
B—Good grade.

C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.

3—Earnings up from the lows.
4—Lower earnings trend.

McCrory Corp. is expansion-minded and H. L. Green and Lerner Stores acquisitions are likely to create a diversified retail merchandising business. Earnings will have to rise substantially to justify present price. **C2**

G. C. Murphy through expansion and acquisitions is expected to attain greater sales and earnings over the longer term. Offers a fair yield. Satisfactory margins should be achieved. **B2**

Neisner Bros.: Operates a moderate size chain mostly in the mid-West. Has embarked on store building program, in an effort to restore profit-margins. **C2**

Newberry, J. J.: Small acquisitions have helped to expand chain. Company moving ahead building shopping center stores. Earnings should improve over the \$2.42 in 1960. **B2**

Woolworth (F.W.): New plans for discount chain and expansion of variety stores promise increased volume over next few years. Large British and foreign holdings add to attractiveness. **A1**

in 1960 a wide range of rain coats were offered and \$100,000 worth sold in the \$8.88 price bracket alone. The introduction of credit is also helping to promote higher priced items.

W. T. Grant has probably made the most dramatic change in its variety store operation. All new outlets are really junior department stores rather than variety stores, and about one half of total sales now derive from apparel compared with an average of 25% for variety chains. Some 45% of sales are from shopping center stores, vs. 26% as recently as 1957. As a further means to promote sales, Grant is building up a catalog business and is expanding credit sales, which are now a high 12%.

The Individual Companies: W. T. Grant

W. T. Grant (29). The program just described for setting up junior department stores has been costly, and earnings will probably continue to be depressed from new stores openings and starting-up costs. During the year ended January 31, 1961, earnings dropped to \$1.50 per share from a record high of \$2.06 in 1959. As far back as 1954 earnings per share were \$1.68; in 1955 they were \$1.86; and in 1956 \$1.68 again. But sales over the period have increased from the \$350 million level to somewhat more than \$500 million. Of the company's 864 stores 320 are at least partially self-service.

The new minimum wage will raise clerical costs of virtually all variety chains, affecting especially stores in the South and in rural areas, and Grant among others is taking steps to offset this sudden cost increase. Use of self-service will undoubtedly become even more the vogue of the day.

Grant's stores are located largely in New York, Pennsylvania, Massachusetts, New Jersey, Ohio, and California where going wages are already very close to, if not higher than, the new minimum, suggesting that the impact of the new law may not be sharp.

In 1960, 78 new stores were opened, 77 in shopping centers. The company plans to add between 70 and 90 per year over the next few years. Both credit and catalog operations are to be pursued, and the company has even added trading stamps as a further effort to increase sales. In time earnings should also benefit, but meanwhile the amply covered dividend of \$1.20 provides a better than 4% yield to the patient investor.

McCrory Deal Makes H. L. Green An Interesting Speculation

H. L. Green (29). On June 20, 1961, stockholders will vote on a proposed affiliation with McCrory whereby Green stockholders will receive \$20 face amount of an issue of 4½% preferred stock plus warrants good for 15 years to buy 1½ common shares of McCrory at \$20 per share. McCrory was recently trading at 23. This would put an immediate exercisable value of 4½ on the warrants and establish a total current value of 24½ for the package offered for one H. L. Green common share. While this would seem to indicate that the Green stock is currently fully-priced, the value of the package offered would naturally fluctuate with the quotations on McCrory. The actual worth of the package is higher, however, if added recognition is given the 15-year call on McCrory stock; in other words the warrants (Please turn to page 396)

the recovery in business activity could be faster than had been expected. But any rise in dividends will be slow. As usual, payments were maintained at peak rates through the recession by most companies. Hence, there will be no strong general tendency to raise them until earnings permit it without significant liberalization of pre-recession payout ratios. For industrials, the latter in recent years ranged around 55%-56%. In numerical terms of action by individual companies, the news remained moderately unfavorable through May, with extras or increases in 90 instances, against 113 a year ago; and reductions or omissions totalling 38, compared with 30 in May of last year. These comparisons should shift to the favorable side before autumn, and total cash payments should be moderately above the year-ago level in the fourth quarter.

Mixed

Despite the record level attained by the industrial average, many stocks remain far under earlier highs. They are in many cases simply issues in cyclical stock groups which were hit harder-than-average by the recession and which still have substantial portions of their recoveries ahead. Some examples are automobiles and parts, building materials, coppers, chemicals, machinery, railroad equipment, steel and tires. But there are other stocks in which more than cyclical factors are involved in extended lags behind the market. These invite at least close re-examination by holders, and a show-me attitude by those considering purchases. Some are prominent.

What's In a Name?

Approaching mid-1961, the following well-known stocks are under highs recorded either in late

1959 or in the first half of 1960: Columbia Broadcasting System, Eastman Kodak, General Mills, Radio Corp., Lily-Tulip Cup, Merck, Minneapolis-Honeywell, Owens-Corning Fiberglas, Motorola, Owens-Illinois Glass, and Parke, Davis. These are under highs reached in 1958: American Can, Continental Can, First National Stores and Schenley. Two which have not equalled their 1957 tops are Burroughs Corp. and National Lead. Old 1955 highs still stand for American Radiator and Chrysler; and old 1951 highs stand for American Viscose, Celanese, United Fruit and National Distillers & Chemical — attained in the latter instance before chemicals got into the business and the corporate name.

Good Showing

Under new management policies, the old Singer Manufacturing Co., world leader in sewing machines, is making impressive progress, despite intense competition both in its extensive foreign markets and from imports. It increased its share of the U. S. market last year and also gained in foreign sales. Operating efficiency has been improved and new lines have been added, including vacuum cleaners, electric waxers and small electric tools. Since the company owns over 1,760 retail stores, heretofore featuring sewing machines, diversification along these lines is logical. Profit was a record \$4.44 a share last year, against 1959's \$4.12, both figures before non-recurring income. Despite the U. S. business recession, it showed a year-to-year gain of 14.6% to \$1.51 a share in the 1961 first quarter. While this is a seasonally-favored period, full-year profit could readily reach \$5.00 or more a share. At \$2.60 last year, against 1959's \$2.20, the dividend rate could be raised again. As would be ex-

pected, the stock has had a big rise; but around 99 at this time, in the vicinity of 20 times earnings, the valuation is closely in line with that for the industrial average, whereas the earnings trend is better than average. The issue is not cheap, yet has a basis for further rise.

Sorry Showing

In the fiscal year ended February 1, profit of Montgomery Ward was down sharply to \$1.07 a share, the poorest showing in many years, and little above the \$1.00 dividend rate, which has previously been cut from a long-maintained \$2.00. The former Avery management was criticized for avoiding expansion and building up huge cash holdings while waiting vainly for years for the big depression that Mr. Avery anticipated. Now the bulk of the cash has been employed in expansion and the present management is being criticized by shareholders for the extremely disappointing results to date. A "modest" gain is officially expected this year. As stated before, we would rather not own this stock, even though the worst may have been seen and the stock, around 29, could have some long-pull recovery possibilities.

A Growth Speculation

Zale Jewelry Co. operates the largest U. S. chain of jewelry stores. It maintains buying offices in leading foreign diamond centers. There are over 200 stores in more than 30 states, with around 40 added in the last year and the greatest number in Texas. This rapid expansion, both internal and by acquisitions, costs money in excess of initial gains from it. So, in the fiscal year ended March 31, profit eased to \$1.81 a share, from a record \$1.96 on slightly fewer outstanding shares in the prior year, at which time net had more than doubled since 1953. Some gain seems likely this year, longer-range potentials promising. Dividends are at a \$1.00 rate. Around 37 on the American Exchange, the stock is believed to be reasonably priced in relation to growth possibilities — as such possibilities are rated in today's markets.

Harvester

International Harvester is one of the major U. S. manufacturing (Please turn to page 398)

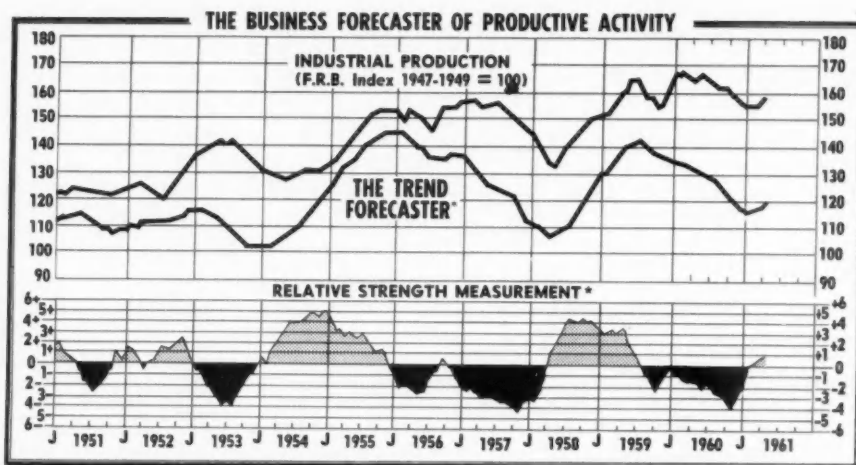
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Celanese Corp.	Quar. Mar. 31	\$.32	\$.50
General Dynamics Corp.	Quar. Mar. 31	.42	.62
Admiral Corp.	Quar. Mar. 31	.08	.32
Heriz Corp.	Quar. Mar. 31	.22	.35
Anchor Hocking Glass	Quar. Mar. 31	.37	.60
Piper Aircraft Corp.	6 mos. Mar. 31	.53	1.77
Bigelow-Sanford	Quar. Apr. 1	.29	.36
Carey (Philip) Mfg.	Quar. Mar. 31	.23	.90
Stauffer Chemical	Quar. Mar. 31	.40	.54
Timken Roller Bearing	Quar. Mar. 31	.38	1.79

the Business

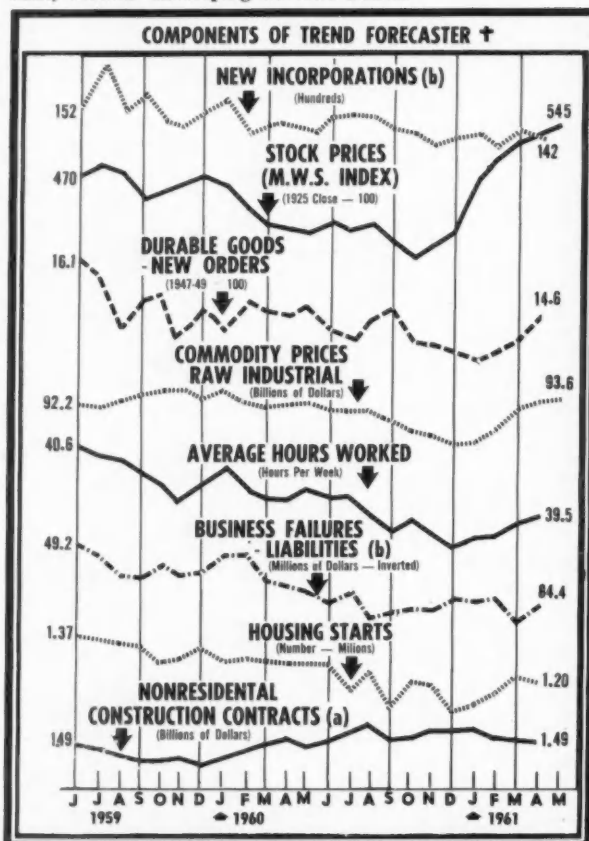
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†) — Seasonally adjusted except stock and commodity prices.
(a) — Computed from F. W. Dodge data.
(b) — Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our *Business Trend Forecaster* of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the second quarter, strength has continued to characterize the component series of the Trend Forecaster. In the latest period for which figures are now available, stock prices, durable goods orders, average hours worked and raw industrial commodity prices were in a clear uptrend. Three other series — new incorporations, business failures and housing starts — have been behaving inconclusively while only nonresidential construction contracts are declining.

The Relative Strength Measurement has continued to advance, and is now in a clear positive range — in the neighborhood of plus 2. Since late 1960, the Relative Strength Measurement has been in an uninterrupted rise. It crossed from negative to positive ground in February, which is likely to turn out to have been the trough month of the 1960-1961 recession, just as it crossed zero in April 1958, the trough of the 1957-1958 recession. Its present level and trend point clearly to sustained strength in the general business system throughout the next several quarters.

s Analyst

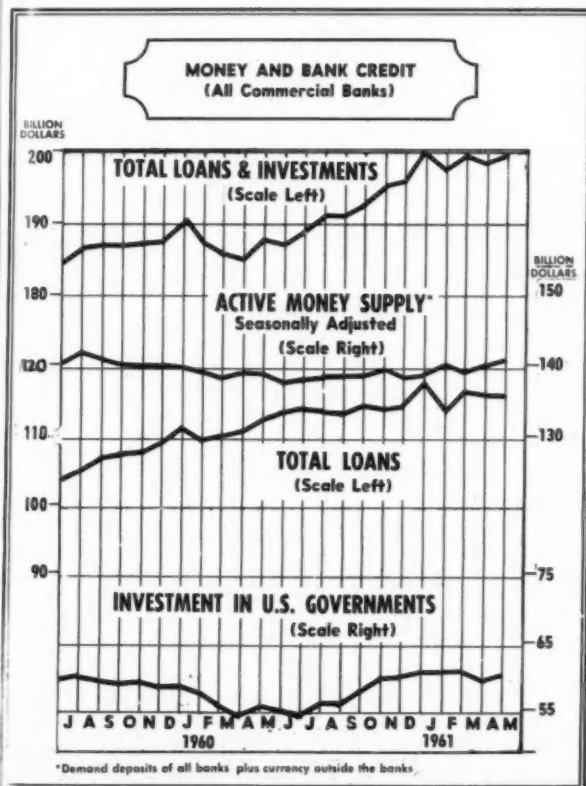
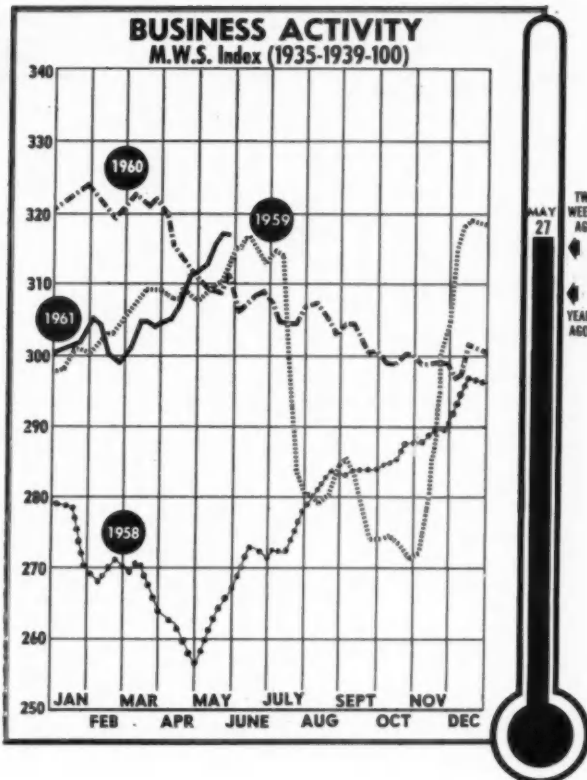
CONCLUSIONS IN BRIEF

PRODUCTION — following a sharp upturn in April and May, reflecting steel and autos, output now rising more slowly but more broadly, in soft goods and hard goods. New record for industrial production may be seen before end of year.

TRADE — strong without setting records. Personal incomes now in a substantial rise, to be reflected at retail in the Fall. New soft-goods records just ahead. Look for good but not sensational business in consumer durables during fall season.

MONEY & CREDIT — still no clear evidence of sharp rise in demands for funds although long term bonds are beginning to weaken. Interest rates should stiffen moderately but should not rise sharply in the next few months.

COMMODITIES — general wholesale price level still stable, in the grip of tight competition and ample supply. Mild uptrend likely in late summer and fall, as markets strengthen, but no important increase in general price averages is visible as yet.



IN the past month, a host of new requests for funds have been delivered into the lap of the Congress, asking for everything from more defense, to more information service, to more help for depressed areas. While some of the amounts were substantial, some were trivial, and in many instances the funds requested, even if granted, would not be spent for several months or quarters. Nevertheless, in the eyes of many experienced observers, they added up to a new turn of the Federal ratchet, auguring a still higher level of total national activity in late 1961 and early 1962. The general business community, already optimistic about the outlook, found it necessary to raise their sights still further.

As a reflection of the additional dose of stimulation attributed to these requests, as well as the clear determination in Washington to get started on a number of other programs for which funds have yet to be provided, the general estimate of gross national product, which had been placed around \$520 billion by year-end, has now been raised to about \$530 billion. This looks like a small percentage increase. However, since the period in question is only six months off, reaching the higher figure implies a smart rate of increase in the summer, fall and winter of 1961. Also implied is a new record for industrial production by early fall, and a further rise in the late fall as the automobile industry goes into production of 1962 models and steel demand begins to feel the exhilarating anticipatory effects of a possible mid-1962 strike.

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND		Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)						
Durable Goods Mfr.	1947-'9-100	Apr.	159	155	165	
Nondurable Goods Mfr.	1947-'9-100	Apr.	160	154	172	
Mining	1947-'9-100	Apr.	159	156	159	
	1947-'9-100	Apr.	127	126	129	
RETAIL SALES*						
Durable Goods	\$ Billions	Apr.	18.0	18.2	18.9	
Nondurable Goods	\$ Billions	Apr.	5.5	5.6	6.3	
Dept. Store Sales	\$ Billions	Apr.	12.5	12.6	12.6	
	1947-'9-100	Apr.	148	146	154	
MANUFACTURERS'						
New Orders—Total*	\$ Billions	Apr.	30.7	29.9	30.4	
Durable Goods	\$ Billions	Apr.	14.6	13.8	14.5	
Nondurable Goods	\$ Billions	Apr.	16.1	16.0	15.9	
Shipments*	\$ Billions	Apr.	30.2	29.6	31.0	
Durable Goods	\$ Billions	Apr.	14.2	13.7	15.0	
Nondurable Goods	\$ Billions	Apr.	16.0	15.9	16.0	
BUSINESS INVENTORIES, END. MO.*						
Manufacturers'	\$ Billions	Apr.	91.1	91.0	93.2	
Wholesalers'	\$ Billions	Apr.	53.4	53.3	55.0	
Retailers'	\$ Billions	Apr.	13.3	13.3	13.1	
Dept. Store Stocks	\$ Billions	Apr.	24.4	24.4	25.2	
	1947-'9-100	Apr.	152	161	158	
CONSTRUCTION TOTAL—t						
Private	\$ Billions	May	56.5	55.3	55.3	
Residential ..	\$ Billions	May	39.3	38.8	38.9	
All Other	\$ Billions	May	21.7	21.3	22.2	
Housing Starts*—a	Thousands	May	17.6	17.5	16.7	
Contract Awards, Residential—b	Millions	Apr.	1203	1285	1327	
All Other—b	Millions	Apr.	1454	1371	1480	
	Millions	Apr.	1843	1795	1880	
EMPLOYMENT						
Total Civilian	Millions	Apr.	65.7	65.5	66.2	
Non-farm*	Millions	Apr.	52.4	52.2	53.1	
Government*	Millions	Apr.	8.7	8.7	8.5	
Trade*	Millions	Apr.	11.5	11.5	11.7	
Factory*	Millions	Apr.	11.5	11.4	12.3	
Hours Worked*	Hours	Apr.	39.5	39.3	39.6	
Hourly Earnings	Dollars	Apr.	2.33	2.32	2.28	
Weekly Earnings	Dollars	Apr.	91.34	90.71	89.60	
PERSONAL INCOME*						
Wages & Salaries	\$ Billions	Apr.	410	410	402	
Proprietors' Incomes	\$ Billions	Apr.	274	272	272	
Interest & Dividends	\$ Billions	Apr.	61	61	60	
Transfer Payments	\$ Billions	Apr.	42	42	40	
Farm Income	\$ Billions	Apr.	32	34	29	
	\$ Billions	Apr.	17	17	16	
CONSUMER PRICES						
Food	1947-'9-100	Apr.	127.5	127.5	126.2	
Clothing	1947-'9-100	Apr.	121.2	121.2	118.5	
Housing	1947-'9-100	Apr.	109.5	109.8	108.9	
	1947-'9-100	Apr.	132.3	132.5	131.4	
MONEY & CREDIT						
All Demand Deposits*—u	\$ Billions	Apr.	113.3	112.1	111.2	
Bank Debits*—g	\$ Billions	Apr.	97.3	98.4	96.8	
Business Loans Outstanding—c, u ..	\$ Billions	Apr.	31.5	32.0	30.9	
Instalment Credit Extended*—u	\$ Billions	Apr.	3.9	4.0	4.5	
Instalment Credit Repaid*—u	\$ Billions	Apr.	4.0	4.0	3.9	
FEDERAL GOVERNMENT						
Budget Receipts	\$ Billions	Apr.	5.1	8.5	5.1	
Budget Expenditures	\$ Billions	Apr.	6.5	7.0	6.0	
Defense Expenditures	\$ Billions	Apr.	3.8	4.3	3.7	
Surplus (Def) cum from 7/1	\$ Billions	Apr.	(6.0)	(4.7)	(3.6)	

PRESENT POSITION AND OUTLOOK

Is all this happy assurance warranted? What can go wrong in a business picture so underwritten by planned, cycle-proof government spending? Why can we not now have guns, butter and a stable price level, all at the same time? The capacity is there, the manpower is there, and Washington seems determined to see that the money shall be there as well.

Without attempting to play the Devil's advocate, one can at least enumerate a few of the questions that remain for 1961-1962. Foremost among these is the fact that the forecasts hang so heavily on rising government spending that they suggest a rising share of government spending in the total. If this is true, then they also suggest a budget deficit, of significant if not alarming size. And they may suggest a deficit big enough to reawaken the fears for the dollar that were very much awake only six months ago. If government outlays rise as fast as they seem about to, if the government continues to keep money easy in an effort to stimulate the private sector, and if the present rather unreasonably high excess of exports over imports should diminish, as many analysts expect, then the drain on U.S. gold could reappear as suddenly as it disappeared just a few months ago, and present us with a whole new range of complicated problems.

Secondly, one may be permitted to wonder what all the activity foreseen by the consensus will mean for corporate profits. Government business is notoriously low on profits; if the great private markets do not revive from the late unlamented recession with much vigor, the major cyclical industries may still find it difficult to restore levels of profits that prevailed at the peak of the profits trend several years ago.

Thirdly, there are a number of domestic markets whose immediate future remains in some doubt. As one illustration, the housing market has thus far shown no signs of responding to the variety of stimuli that have already been injected into this area. According to many specialists in the field, the central component of the market, those single-family dwellings which have comprised the bulk of

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	—1961—		1960	
	Quarter I	Quarter IV	Quarter III	Quarter I
GROSS NATIONAL PRODUCT	499.5	503.5	503.5	501.3
Personal Consumption	329.0	330.8	328.3	323.3
Private Domestic Invest.	61.0	66.0	70.8	79.3
Net Exports	5.0	4.6	3.7	1.2
Government Purchases	104.5	102.1	100.7	97.5
Federal	54.5	53.3	52.7	51.8
State & Local	50.0	48.8	48.0	45.7
PERSONAL INCOME	407.5	408.5	408.0	396.2
Tax & Nontax Payments	50.4	50.4	50.5	49.2
Disposable Income	357.2	358.1	357.5	347.0
Consumption Expenditures	329.0	330.8	328.3	323.3
Personal Saving—d	28.1	27.2	29.2	23.7
CORPORATE PRE-TAX PROFITS		40.7	41.5	48.8
Corporate Taxes		19.8	20.3	23.8
Corporate Net Profit		20.8	21.3	25.0
Dividend Payments	14.0	14.1	14.0	13.9
Retained Earnings		6.7	7.3	11.0
PLANT & EQUIPMENT OUTLAYS	34.4	35.5	35.9	35.2

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	May 27	316.7	316.8	309.3
MWS Index—Per capita*	1935-'9-100	May 27	225.5	225.6	223.8
Steel Production Index*	1957-'9-100	May 27	111.5	109.3	100.4
Auto and Truck Production	Thousands	June 3	109	161	148
Paperboard Production	Thousands Tons	May 27	332	324	311
Paperboard New Orders	Thousands Tons	May 27	320	303	314
Electric Power Output*	1947-'49-100	May 27	284	290	275
Freight Carloadings	Thousands Cars	May 27	579	568	640
Engineering Constr. Awards	\$ Millions	June 1	400	400	648
Department Store Sales	1947-'9-100	May 27	137	146	139
Demand Deposits—c	\$ Billions	May 24	61.8	61.3	n.a.
Bus Failures—s	Number	May 23	368	303	299

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61		1961		(Nov. 14, 1936 Cl.—100)	High	Low	May 26	June 2
	High	Low	May 26	June 2					
Composite Average	550.0	410.9	547.4	545.7	High Priced Stocks	336.4	262.7	332.7	334.7
					Low Priced Stocks	729.8	527.6	729.8	721.1
4 Agricultural Implements	497.2	346.4	497.2	474.0	5 Gold Mining	1226.0	810.8	1039.9	1018.0
3 Air Cond. ('53 Cl.—100)	176.9	105.8	171.9	168.2	4 Investment Trusts	170.6	136.5	158.1	162.3
10 Aircraft & Missiles	1329.2	861.9	1297.0	1275.6	3 Liquor ('27 Cl.—100)	1548.9	1098.2	1513.7	1525.4
7 Airlines ('27 Cl.—100)	1163.6	736.7	1147.3	1114.8	7 Machinery	647.3	402.9	642.4	642.4
4 Aluminum ('53 Cl.—100)	521.3	354.5	453.6	461.6	3 Mail Order	494.2	364.2	457.8	457.8
5 Amusements	427.0	209.3	408.4	402.2	4 Meat Packing	298.3	223.9	293.1	290.5
5 Automobile Accessories	531.1	401.0	487.7	487.7	4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	199.4	193.8
5 Automobiles	157.0	90.8	105.3	105.3	9 Metals, Miscellaneous	449.8	313.3	446.5	446.5
3 Baking ('26 Cl.—100)	44.6	34.9	41.0	41.4	4 Paper	1237.1	867.3	1100.0	1100.0
4 Business Machines	2008.2	1159.1	1943.0	1929.9	16 Petroleum	828.6	609.0	807.2	800.0
6 Chemicals	872.2	657.3	857.3	872.2H	16 Public Utilities	472.4	341.6	460.3	460.3
3 Coal Mining	38.4	27.2	37.6	37.6	6 Railroad Equipment	110.9	75.8	110.9	110.9
4 Communications	257.6	199.9	246.7	240.1	17 Railroads	70.1	49.9	58.6	57.6
9 Construction	231.8	143.3	230.1	228.4	3 Soft Drinks	1096.6	690.3	1087.3	1096.9
5 Container	1074.3	824.6	1039.7	1048.3	11 Steel & Iron	464.9	325.4	420.9	417.5
5 Copper Mining	399.3	275.4	388.3	380.1	4 Sugar	100.9	63.0	86.3	86.3
2 Dairy Products	232.4	146.8	216.1	218.2	2 Sulphur	874.7	563.1	846.5	874.7H
5 Department Stores	185.7	135.2	184.2	185.7	11 TV & Electron. ('27—100)	130.4	86.8	127.5	130.4H
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	434.2	442.1	5 Textiles	258.4	183.3	254.5	256.5
5 Elect. Eqp. ('53 Cl.—100)	395.6	310.7	392.2	395.6	3 Tires & Rubber	255.9	170.6	220.8	220.8
3 Finance Companies	1027.5	648.8	987.3	979.3	5 Tobacco	282.3	182.5	277.7	277.7
5 Food Brands	763.9	419.3	736.0	763.9H	3 Variety Stores	398.9	349.3	395.4	398.9H
3 Food Stores	326.0	232.1	308.3	305.8	16 Unclassifd (49 Cl.—100)	337.7	224.0	335.3	328.3

H—New High for 1960-1961.

PRESENT POSITION AND OUTLOOK

postwar building, can not be expected to recover very sharply, if at all, since it is up against a seriously ebbing tide in the postwar wave of suburbanization. Hopes for housing tend now to be placed on those fringe areas of the market such as apartments, shell homes and mobile homes which used to be looked at askance by the industry as a whole.

There are also doubts, although a little less clearly, about the state of plant and equipment outlays. More and better information on the probable course of such spending than is now available will be required before one can confidently project a sharp uptrend in this area. Capacity remains ample if not excessive across a broad industrial front, and the need to spend for additional facilities is not nearly as compelling as it was in earlier years of the postwar boom.

Finally, the consumer himself may be a little recalcitrant. Even among extreme optimists for the next eighteen months, there is a disposition to cautiously appraise the prospects for unemployment. Typically, massive reemployment has been a necessary concomitant of a real surge in consumer spending.

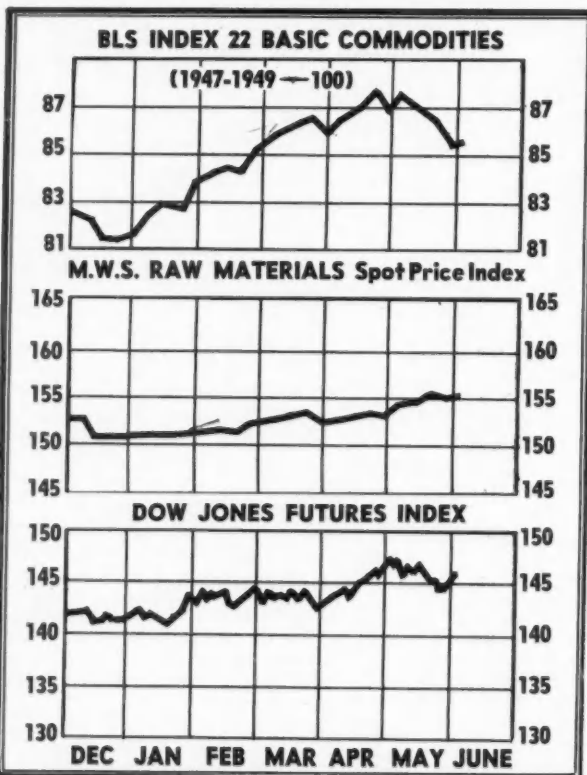
Trend of Commodities

SPOT MARKETS—Prices of leading industrial raw materials weakened perceptibly in the two weeks ending June 2, while raw foodstuffs remained firm. The B L S daily index of 22 commodities lost 1.1% during the period, to close at 85.5, which compares with a high of 87.4 in late April. Among industrial raw materials, the metals component of the index rose 1.0% in the latest two weeks, due to a strong improvement in the price of steel scrap. Most other materials were inclined to give ground.

Among the rank and file of commodities, prices were little changed in the last half of May. Farm prices were slightly higher while foods were off a trifle. This type of lackadaisical market action may well continue through the summer, if there is no flare-up in the foreign situation.

FUTURES MARKETS—Most commodity futures continued to seek lower levels in the fortnight ending June 2. Rye, soybeans, lard, rubber, copper and lead posted minus signs while corn, oats, coffee, cocoa, and hides improved. Cotton and wheat were unusually stable with negligible price changes during the period. The Dow-Jones Commodity Futures Index lost 0.79 points to close at 145.8, down from 147.7 at the beginning of May.

The wheat crop is making good progress and a near-record harvest is in prospect. This is militating against any immediate favorable reaction to talk of a higher support level for the grain in 1962. Wheat futures normally are apt to make their lows during the harvesting season and once this is past, greater strength may develop in futures.



BLS PRICE INDEXES
1947-1949—100

	Date	Latest 2 Weeks	1 Yr. Ago	Dec. 1941
All Commodities	May 30	118.9	119.1	119.7
Farm Products	May 30	86.5	87.3	90.4
Non-Farm Products	May 30	127.8	127.9	128.2
22 Sensitive Commodities ..	June 2	85.5	86.5	86.2
9 Foods	June 2	77.1	76.8	77.2
13 Raw Ind'l. Materials..	June 2	91.7	93.7	92.9
5 Metals	June 2	95.3	94.4	92.5
4 Textiles	June 2	80.6	82.0	81.6

MWS SPOT PRICE INDEX
14 RAW MATERIALS

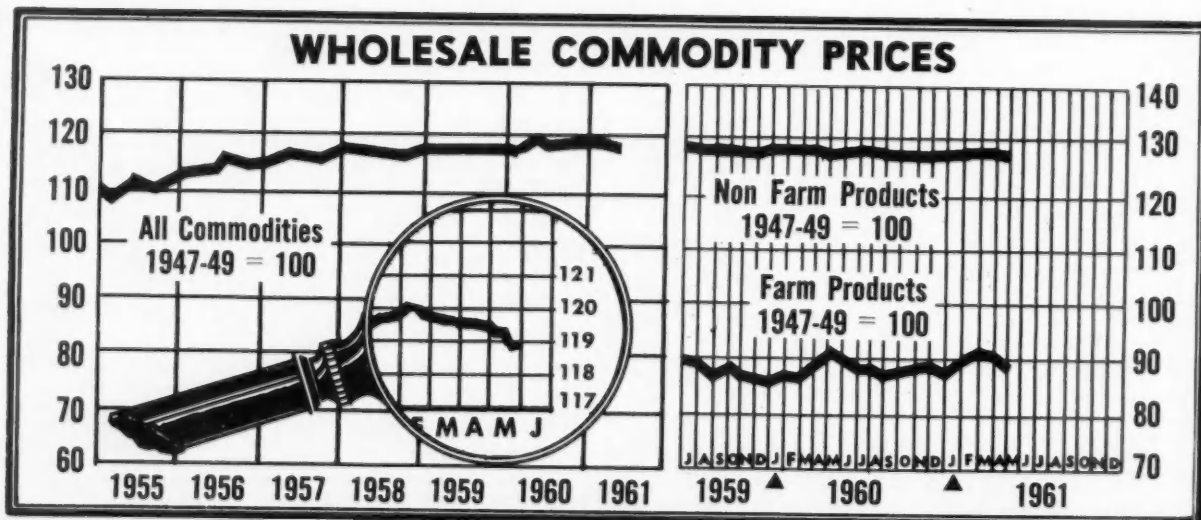
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	155.5	160.0	161.4	162.3	215.4	85.2
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	147.7	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1





Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET, 120 Wall St., New York City 5, N.Y., will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Pfeiffer Brewing Co.

"As a subscriber to your interesting Magazine, please tell me whether I should buy Pfeiffer Brewing at this time. I am interested in stocks selling at low prices and my objective is to make a profit. I notice that this stock has recently made a new high for the year to date and, at the current price of about $4\frac{1}{2}$, I could afford to buy several hundred shares. Would you recommend this?"

D. J., Cleveland, Ohio

It is true that Pfeiffer Brewing is currently selling at about $4\frac{1}{2}$ but, in this case as in others, a low price does not necessarily indicate that the stock is undervalued. On the contrary, most stocks selling at around \$5 per share carry a substantial element of risk, even though this is not true in all cases.

Pfeiffer Brewing Co. is the third largest brewer in Michigan and the company also owns a brewery in Minnesota. It has an annual capacity of 2,100,000 barrels at the Detroit and Flint, Michigan breweries, and 750,000 barrels capacity at the St. Paul, Minnesota brewery. About 75% of the company's total output is sold in Michigan, with the greater part of sales in the Detroit market. The remaining 25% of sales represent beer distributed in in other states in the Great Lakes

area. Last year sales volume amounted to 917,804 barrels of beer, compared with 899,826 barrels in 1959 and 1,618,077 barrels in 1950 (the peak year). The greater part of the company's output in Michigan is sold as packaged beer, due to regulations in that state. On the more favorable side, per capita beer consumption in the company's marketing area is about 40% above the national average. However, on the other hand, the company's Michigan market is shared largely by six producers and, while Pfeiffer is now the third largest; it lost first position early in 1954. Also, competition from national distributors of beer is increasing. Sales of the company have declined from \$40,600,000 in 1952 to a recent low of \$23,600,000 in 1958. Since the latter year, sales increased slightly to \$25,200,000 in 1959 and \$26,500,000 in 1960.

Earnings reached their peak of \$3,650,000 or \$3.05 per share in 1950, after adjustment for stock split-ups. For the years 1956, 1957 and 1958, deficits were reported. Last year, earnings were equivalent to 11 cents per share, as against 1 cent in 1959.

For the first quarter of this

year, a moderate gain in sales was reported to \$3,370,000 from \$3,250,000 a year ago. The earnings statement, for the first quarter of this year, showed a deficit equivalent to 13 cents per share, compared with a deficit of 20 cents a year previous. Normally, the first quarter is one of the lowest on a seasonal basis. No dividends have been paid since 1954.

While the company has made changes in its products and selling methods, in an attempt to regain former markets, its outlook is by no means to be viewed with assurance, at least at this time. The stock has already advanced from a low of 3 this year to date to a recent high of $5\frac{1}{8}$, with the current price about $4\frac{1}{2}$. This issue must be viewed as speculative and we would not be inclined to recommend its purchase.

Torrington Co.

"I have been a subscriber to your Magazine for many years and I would not do without it. In my portfolio of securities, there are many good issues favorably mentioned in your publication from time to time, which I have acquired over the years. However, I recently acquired the stock of Torrington Co. on the advice of my broker. I am wondering whether I should continue to hold this stock. What would you advise?"

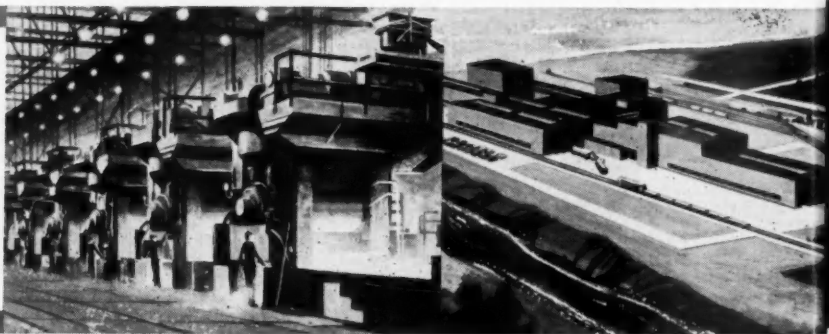
M. L., Charleston, S. C.

Torrington Co. is engaged in the production of a broad line of anti-friction bearings and is also a leading manufacturer of machine needles. Other products of the company include nuts, screws, bolts, metal specialties, drill bits, surgeons' needles, hooking and felting needles, swaging machines, and a special purpose sewing machine. About one third of total sales are represented by anti-friction bearings, including needle bearings, and ball, roller

(Please turn to page 400)



**FIVE
MAJOR STEPS
TO FURTHER
PROGRESS**



AT GREAT LAKES STEEL in Detroit, the computer-controlled and operated 80" Mill of the Future—fastest, most powerful hot-strip mill in the world—will provide more and better automobile body sheets.

AT MIDWEST STEEL near Chicago, the most modern and efficient steel finishing plant in existence will provide industry with the finest quality tin plate, galvanized sheets, hot- and cold-rolled sheets.

WEIR
ved fa
produ
plate,

George M. Humphrey,
Thomas E. Millsoy and Paul H. Carnahan,
top men at National Steel Corporation, talk about . . .

NATIONAL STEEL'S \$300 MILLION OF NEW CONSTRUCTION . . .

and what it means to you

The huge program begun three years ago by National Steel is nearing completion. Costing in excess of \$300 million, it is a signal of continuing progress at National Steel. It is the result of a never-ending search for the new and the better.

It is tangible evidence that private citizens have firm confidence in the future and are willing to back this confidence with huge amounts of private money. It is the kind of thing, throughout our economy, which provides the solid foundation for widespread American prosperity . . . and for which there is no substitute.

There are obvious benefits, of course, that will result from this construction program.

TO OUR EMPLOYEES—it means better, more secure, more stable jobs.

TO OUR CUSTOMERS—this expansion means the assurance of steel supply in volume during periods of peak demand. In any period, the expansion means steel

of the highest and most uniform quality ever produced.

TO OUR COMPANY—it means higher efficiency, greater stability and lower costs throughout our operations . . . factors which provide us with a stronger competitive position in the market place.

TO YOU AS A CONSUMER OF STEEL—it means better products because of better steel. It means greater value for your dollar in the products you buy.

TO YOU AS AN AMERICAN—it means a powerful weapon against inflation; it means more strength for America faced with competition against the low-cost labor and newly added modern techniques of foreign producers. And it means a greater industrial base for national security.

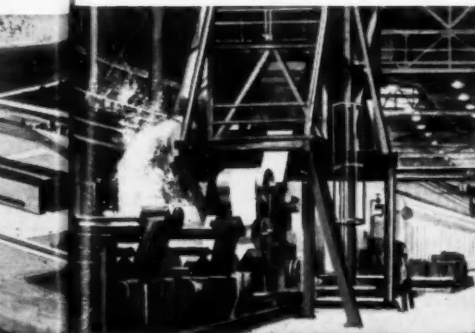
As National Steel's new facilities come into operation during the months ahead, we'll tell you more about them. And we think you'll agree that it will be good news for our employees, our customers, our company and for you.



NATIONAL STEEL CORPORATION, PITTSBURGH, PA.

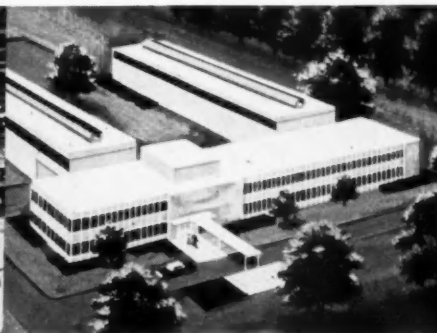
SUBSIDIARIES AND DIVISIONS:

GREAT LAKES STEEL • WEIRTON STEEL • MIDWEST STEEL • STRAN-STEEL • ENAMELSTRIP • HANNA FURNACE • NATIONAL STEEL PRODUCTS

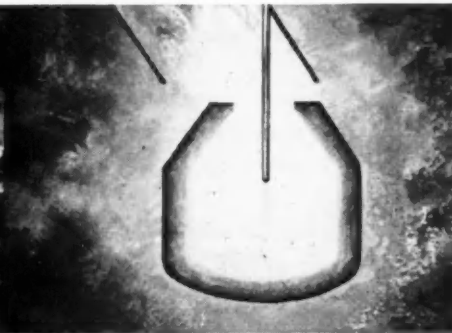


st modern
ence with
tin plate
d sheets

WEIRTON STEEL in Weirton, W. Va., new and improved facilities throughout this division will increase production and improve the quality of Weirton's plate, galvanized sheets and cold-rolled sheets.



OUR NEW RESEARCH CENTER will be National Steel's headquarters for the expanded, continuing exploration of new and better raw materials, facilities, manufacturing processes and products of steel.



A BASIC OXYGEN STEELMAKING SHOP, including two of the largest vessels ever built, is now under construction at Great Lakes Steel in Detroit to increase the flexibility and efficiency of our operations.

Bringing Basic Indicators Up-To-Date As New Help For Business Forecasters

(Continued from page 365)

picture of current economic trends than has been possible heretofore.

► Some 70 principal indicators and about 350 components are used for the different measures which are produced each month. Equally impressive is the report's timeliness. It is completed and issued within three weeks after the end of the month to which it refers.

► The report is not yet generally available to the public. During its formative period it was closely held by the Council of Economic Advisers. As it was "de-bugged" it came to be more widely distributed in Government circles. Then it began to be discussed before scholarly groups. Finally, a budget request was prepared and the existence and nature of the report was made more widely known among business and economic analysts.

► If Congress allows the Bureau of the Census the \$60,000 it needs to produce this report for general distribution, the public will shortly be able to subscribe to the *Monthly Report on Current Business Cycle Developments*, the most inclusive presentation of "leading", "coincident", and "lagging" factors in business cycle development now being prepared.

New Tools, New Problems

Like all new tools, *Current Business Cycle Developments* may be dangerous in the hands of the unwary, and this consideration has caused some concern about its release to the general public. The figures themselves, like those of the components making up the *Business Trend Forecaster*, require informed analysis if they are to be used intelligently, and interpretation is an art as well as a science.

It has been suggested that the Government itself should provide "some interpretation" of these data. This would be a novel and controversial departure from present practice. While the Administration in power has never hesitated to give its interpreta-

tion of the significance of current economic developments, it has so far never used a Federal statistical program for this purpose. Rather, it has relied on more traditional vehicles such as Presidential speeches and press conferences, statements by high Administration officials, the President's Economic Report, the State of the Union message, and similar documents. The direct interpretation of the current economic outlook as revealed by a particular statistical presentation seems hardly likely. More probably the Government will do no more than provide a new tool for short-range forecasting. Users will have to learn how to use it most effectively in fashioning the forecasts most appropriate to their own needs.

Forecasters who already use the leading, coincident, and lagging indicator approach to the analysis of short-term economic fluctuations are enthusiastic about the prospects of having available a *Monthly Report on Current Business Cycle Developments*. The publication of this report will lead to a broader appreciation of this approach and to its use by even wider circles of analysts who are seeking better means of forecasting what is likely to happen in the near-term future. END

How should you pick a Broker?

In a word — carefully.

Not because there aren't any number of fine firms to choose from — there are.

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Differences in physical facilities . . .

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Differences in personnel training and, *most important of all,*

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The Canadian Economy Today — Where Is It Headed?

(Continued from page 371)

first and most immediate effect of this legislation was the rise of the American dollar for the first time in several years to a position almost of parity with the Canadian dollar. This development in turn was of considerable aid to such industries as nickel and pulp and paper production whose chief export markets are in the United States.

What long range effect this move of the Canadian Government will have on the flow of American investment into Canadian enterprises it is, as yet, too soon to tell. But it is fairly certain that the present Progressive Conservative Administration in Ottawa is not likely in the near future to introduce any further legislation which might be harmful to the position of American investments in Canada.

Certain prominent public figures such as James Coyne, the



IF YOU MISSED THIS IMPORTANT MEETING...

here is a summary of the 1961
Standard Oil Company (Indiana)
shareholders' meeting and a
report on first quarter activities

First quarter consolidated net earnings for Standard Oil Company (Indiana) totaled \$43,820,000, an increase of 38% over 1960 first quarter earnings of \$31,689,000. That was the highlight of President John E. Swearingen's remarks to shareholders at the Company's annual meeting, held May 4 in Whiting, Indiana.

Mr. Swearingen told shareholders that earnings per share were \$1.23 for the first quarter of 1961, as against 89¢ last year, reflecting increased crude oil production, a larger volume of product sales, better average product prices and continued reductions in costs. He added a word of caution, however, about predicting the whole year of 1961 on first quarter results. He said, however, that it would be reasonable to anticipate better 1961 earnings than those for 1960 "unless there are major setbacks not now foreseen."

Production. Mr. Swearingen said that production of crude oil and natural gas liquids in the first quarter of 1961 averaged 344,000 barrels a day, up nine per cent over a year ago. Production increases in Canada and Argentina more than offset decreases in the U. S., resulting from prorationing. In Iran, some oil has been found in two wildcat wells in the Persian Gulf, but not in commercial quantities. Both wells are being abandoned, but the exploration program will be

continued with the start of two new wildcats on our four-million-acre offshore tract.

During the first quarter of 1961 Pan American Petroleum Corporation, the Company's production subsidiary, made a joint bid with Tidewater Oil Company to purchase the properties of Honolulu Oil Corporation. Purchase agreements, which are subject to approval by Honolulu stockholders and to the issuance of tax rulings, have been signed.

Mr. Swearingen added that more than half of the Company's capital expenditures, and over 60% of total capital and exploratory expenditures, would be devoted to exploration and production activities in 1961.

Natural gas sales in the first quarter were about even with a year ago, Mr. Swearingen said. Crude runs to refineries averaged 681,000 barrels a day in the first quarter, compared with 616,000 barrels a day in 1960, when operations at the Company's Texas City and Sugar Creek refineries were affected by strikes.

Marketing. Refined product sales in the first quarter of this year averaged 718,000 barrels a day, an increase of 1.3% over 1960's first quarter. Mr. Swearingen also said that dollar volume of chemical sales increased 11% over the 1960 period.

Mr. Swearingen briefly reviewed for stockholders the accelerated development of the Company's nation-wide marketing subsidiary, American Oil Company, since its reorganization at the end of 1960. "The greatest advertising and sales promotion campaign in the history of our Company is now getting under way," he said. "This year American Oil will seek to top a record set last year for the highest volume of sales in our history."

Other Business. Stockholders of the Company re-elected all twelve members of the Board of Directors.

Two proposals presented by stockholders were rejected by substantial margins. One requested that the post-meeting report contain a summary of the discussion of shareholder questions of importance and the vote on all proposals. A second proposed that stockholder balloting be reported by number of stockholders, as well as by number of shares. Management's position was that stockholders are, and will continue to be, adequately informed.

In answer to questions, Company spokesmen reported:
1—Both the parent company and its subsidiaries had adopted written policies, defining conflicts of interest. Members of management at all levels have reported that their personal interests are not in conflict with the Company's.

2—The Company had carefully investigated methods of protecting foreign investments. With regard to insurance with the International Cooperation Administration, offering protection against losses arising from expropriation, war and convertibility of currency in foreign countries, the Company has concluded that, in cases examined to date, the coverage did not justify the cost.

In a concluding statement, Mr. Swearingen said, "We have reasons for optimism in our outlook for the year 1961. The business recession seems definitely to have ended, and we look for a decided improvement in the general economy in the second half. Domestic demand for petroleum products this year should be from 2 to 3 per cent higher than last year, and foreign demand should be some 6 to 7 per cent higher."

Directory of Standard Oil Company (Indiana) Major Subsidiaries

AMERICAN OIL COMPANY, headquartered in Chicago, manufactures, transports, and sells petroleum products in the United States. It markets through its Standard Oil division in 15 Midwest states.

AMOCO CHEMICALS CORPORATION, Chicago, manufactures and markets chemicals from petroleum here and abroad.

AMOCO TRADING CORPORATION, New York City, buys, sells, and trades crude oil and products abroad.

INDIANA OIL PURCHASING COMPANY, Tulsa, buys, sells, and trades crude oil and natural gas liquids in the United States.

PAN AMERICAN PETROLEUM CORPORATION, Tulsa, finds and produces crude oil and natural gas in the United States and Canada. Its subsidiary, Pan American International Oil Corporation, New York City, engages in oil exploration and development outside of North America.

SERVICE PIPE LINE COMPANY, Tulsa, transports crude oil for our refineries and for others.

TULOMA GAS PRODUCTS COMPANY, Tulsa, markets liquefied petroleum gas, natural gasoline, and related products.

STANDARD OIL COMPANY (INDIANA), 910 S. MICHIGAN, CHICAGO 80, ILLINOIS

Governor of the Bank of Canada, continue to proclaim their conviction that the role of American investment should become a comparatively minor one in Canada, that Canada should finance her economic and industrial development primarily out of savings, but it is noteworthy that in recent months many Canadian business and political leaders have been attacking this set of ideas as being harmful to Canadian economic progress.

For example, Robert Fowler, the president of the influential Canadian Pulp and Paper Association, in a speech to this body in Montreal in January of this year, in discussing this subject said that it was very easy for a public speaker to get into the headlines in Canada at the present time by delivering a rousing speech on the menace of American economic penetration of Canada. Mr. Fowler said that utterances of this type masqueraded as rugged and independent Canadianism but they were in reality nothing but anti-Americanism. He said that American capital would play an important and useful role in the development of Canada's natural resources. This is only one of many pronouncements of this type which have been made by influential Canadian business and political leaders during the past few months.

In Sum

In a country of the type of Canada where foreign trade contributes such a large share of the national income, prosperity is vitally dependent on international economic and trade developments. If the present high degree of prosperity continues in the United Kingdom and some of the Western European countries where Canada has large export markets, and if the market for certain Canadian raw materials such as copper and lumber revives in the United States, it is possible that the coming year may be a better one for the Canadian economy. But it is quite apparent that unless economic conditions take a decided turn for the better in Canada during the next few months, that the Canadian Government will be compelled to take a more active role in devising measures to stimulate employment and production than it has during the past two or three years. END

Varying Investment Status For Companies In Natural Gas Industry

(Continued from page 375)

level, nor that the equity return can be cut back further if the industry is to finance its expansion. An analysis of the FPC actions leads to the conclusion that the pipelines are considered to have ended their expansionary phase and now should be viewed as stable utilities. There will still be growth of earnings, but the rate will be much more moderate than in past years.

Other Regulatory Problems Remain To Be Solved

It must be recognized in this regard that not all regulatory problems have been settled. Issues of tax accounting for rate-making purposes and allocations of costs between vital industrial sales and those destined for ultimate use by residential customers still are to be resolved. The Commission is also investigating the distribution of earnings received from regulated sales and then devoted to non-regulated activities. As practically every major pipeline is to some degree engaged in these operations (see below), the impact could be important. Lastly the appointment of two new commissioners, both with public power backgrounds, poses further uncertainties. The term of a third commissioner expires later this month which will permit the Kennedy Administration to name a majority of the federal regulators. In recent months the present Commission has been following the dictates of the courts that the terms of the Natural Gas Act should be interpreted in a manner to provide gas to the residential consumer at the lowest price commensurate with maintaining a sound industry. As stated by the Commission, these terms are strict.

Tendency of Pipelines To Enter Non-regulated Lines

In view of the long period of uncertainty in the industry as well as increasingly stringent regulation it is not surprising that practically every major pipeline is now engaged in some operations outside the scope of regulation. Tennessee Gas Transmission probably is the most

deeply committed, deriving some 40% of its net income from non-regulated sources. Over a period of years this company has become an integrated international oil and gas operation. Others that have made sizable investments in industrial or non-regulated activities related to oil and gas industry are El Paso Natural Gas and Texas Eastern Transmission Co. More recently Northern Natural Gas entered the propane industry through acquisition of several distributors and now is constructing a propane-butane extraction plant in Kansas. Texas Gas Transmission also has entered into several non-regulated ventures although they are relatively small, and Transcontinental Gas Pipeline has announced a proposal to construct a liquid products line to serve the southeast. Arkansas-Louisiana, while primarily a distributor (not subject to FPC) obtains about 40% of its income from non-regulated operations including the manufacture of gas fired air conditioners, gas furnaces, regulating equipment and controls, cement, fiberglass boats and other miscellaneous products. In addition this company has acquired the distributing properties of a former neighbor and has announced the proposed acquisition of Mid-South Gas which also serves an adjacent area.

Integrated Companies Emphasizing Distribution

Among the integrated companies distribution activities are becoming more dominant in their earnings pattern. Pipelines owned by the system are gaining an increasing importance as a lever in obtaining and controlling deliveries of additional gas supplies rather than as an important contributor to system income. The control of supply is becoming sufficiently important so that an increasing number of companies are constructing or obtaining control of pipelines from the southwest. Columbia Gas several years ago purchased the former Gulf Interstate Pipeline, and Consolidated Natural Gas has an agreement with Texas Gas Transmission wherein the former company is leasing the capacity of an entire pipeline. Other integrated companies such as American Natural Gas, Peoples Gas Light & Coke and United Gas Corp. also are concentrating on the development of sales at the retail level

rather than expanding pipeline service to other utilities. It is not inconceivable that, over a period of years, a number of the distributing companies may also seek participation in the ownership of their suppliers' pipelines in order to improve the control over deliveries.

The integrated companies, for the most part, offer the investor a combination of moderate growth of per-share earnings over a number of years coupled with somewhat better yields than are available in the electric utility industry. Should the development of gas air conditioning equipment proceed rapidly the earnings growth could be larger although this will require a period of at least 3 to 5 years.

Distributors Require Dense Population for Greatest Profitability

Retail distributors in the gas industry operate in relatively compact geographical areas and generally are isolated from their neighboring companies by rural territories. Stated another way, the economics of the industry require a relatively high density of population if the operation is to be conducted profitably. Extensions of distribution mains can be made only when prospective load development is fairly sizable. For this reason a number of the companies have undertaken to enter the propane business, sometimes on a cooperative basis with local propane distributors. Because of the difficulty in extending service into new areas, there are a large number of relatively small companies in the gas distribution field, many of them with small capitalizations. There are, in fact, only ten or twelve that would qualify as being of sufficient size to attract institutional investment. Several of these companies are, of course, quite sizable, serving major metropolitan areas, such as **Pacific Lighting**, which covers most of southern California, and **Northern Illinois Gas**, which serves most of northern and central Illinois. **Brooklyn Union Gas** also is growing rapidly and has a major new prospective market in Staten Island, while **Washington Gas Light** continues to reflect the expansion of the suburban District of Columbia area. **Laclede Gas** serves St. Louis, which is undergoing a major rehabilitation effort and **Lone Star Gas** operates in a large

number of growing Texas communities.

Storage Facilities Solving Poor Load Factor

Each of these companies is importantly dependent on underground storage of gas in order to meet the winter heating market. A number of them depend on their pipeline suppliers to construct these fields but others have undertaken the storage operations themselves. Among these are **Laclede Gas**, **Northern Illinois Gas** and **Pacific Lighting**. The importance of storage to these companies cannot be overemphasized as it increasingly permits a reduction of dump sales in the summer, which are made at little better than marginal return, and receipt of premium value for their winter gas sales. The distributors generally are regulated by state authorities and, therefore, the returns allowed are more realistic than those being applied by the FPC. Within this segment of the industry appear some of the more interesting potential in-

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CONSECUTIVE DIVIDEND

Common Stock

A quarterly dividend of 45¢ per share payable on July 1, 1961 to stockholders of record at the close of business June 12, 1961, was declared by the Board of Directors.

ROBERT O. MONNIG
Vice-President and Treasurer

June 2, 1961

CONSOLIDATED NATURAL GAS COMPANY



30 Rockefeller Plaza
New York 20, N. Y.

DIVIDEND No. 54

THE BOARD OF DIRECTORS has this day declared a regular quarterly dividend of Fifty-Seven and One-Half Cents (\$57½¢) per share on the capital stock of the Company, payable August 15, 1961 to stockholders of record at the close of business July 17, 1961.

JOHN MILLER, Secretary
June 7, 1961

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vestments for the coming several years.

While it is more difficult to obtain information on smaller distributors the combination of approaching stability of field prices for gas and the potential for sales of gas air conditioners lends some speculative appeal to such regional distributors. Among the companies that would qualify in this category are Southwest Gas Corp., Pioneer Natural Gas, Southern Union Gas, Mobile Gas Service, Piedmont Natural Gas and a number of others serving in the southwestern and southeastern parts of the United States.

Best Growth Opportunity Has Shifted To Distributors

In summary it would appear that the balance in the natural gas industry has shifted. Where the pipelines had been considered the preferred growth vehicles in the past, the greater prospects for more rapid earnings improvement are now found in the local distributing companies. In an intermediate position, partially reflecting their size and diverse operations, are the integrated companies which have a potential for moderate earnings growth and somewhat better than average dividend income. Pipelines are becoming primarily yield-producing securities, aside from those which have long-term speculative investments in non-regulated enterprises. **END**

Revolution In Retailing As Huge Variety Chain Invades Discount Field

(Continued from page 381)

should certainly be valued above their worth on immediate exercise of the option. The original offer looked like a good one only for an investor satisfied to hold a straight $4\frac{1}{2}\%$ preferred stock that might well decline in value. For this reason apparently McCrory changed the offer by adding a conversion feature with the ratio changing from $31\frac{1}{2}_{21}$ shares of McCrory common for each \$100 par value of preferred to $2\frac{6}{7}$ shares on June 30, 1962 and $2\frac{1}{2}$ shares after 1966 to 1970, when the conversion privilege expires. Green seems to be a good speculation on this basis.

Kresge Attractive for Income

Kresge (32). The \$1.60 dividend provides a yield of about 5%. In 1960 the company opened 59 new stores vs. 42 in 1959 and, as mentioned above, plans to pursue a program to broaden the product line to include higher priced items. A total of 275 of its 662 stores are classified as "variety department stores". Self-service check-out operations have been extended to 407 stores. Cost control is a real problem, especially from the standpoint of wages, and the company has made little progress over the last ten years as far as growth in earnings per share is concerned. However, the stock has attraction from the standpoint of yield.

Other Companies

McCrory Corp. (22). Chairman Riklis is building up a truly diversified operation. Through various mergers the company is now in the fields of variety chains, auto accessories and supplies, and men's wear. As mentioned above the company plans to acquire H. L. Green by issuing preferred stock and warrants. In addition a plan is under way to acquire Lerner Stores, in the women's wear and children's wear fields. Further moves will undoubtedly be under way as long as Mr. Riklis remains in the picture.

While economies through integrating these various operations should be possible, it cannot be taken for granted that McCrory management will be able to handle effectively the varied competitive problems of such a conglomeration; in other words, management could be spreading itself too thin. The separate parts have not have an especially good growth record; will the combination be more effective? There is little question, however, concerning management's ability to swing these deals, but when related to pro-forma earnings on a merger basis of 58¢ per share in 1960 and 61¢ in 1959 the stock selling in the twenties does not appear cheap on the bare record.

G. C. Murphy (50). Traditionally a variety chain operator in Pennsylvania and Ohio, Murphy has entered Texas, Louisiana, and Mississippi by way of merger. Besides its attractive 4.6% yield, the stock does offer promise of modest growth. Further expan-

sion in Texas is planned following two recent acquisitions there, one in late 1960 and one in February, 1961, totaling 22 stores. In Mid-February the company's store building program included 42 additional locations, beyond the existing total of 437 stores in operation at the end of 1960. Like most variety stores Murphy in 1960 had problems of competitive pricing on one hand and rising costs on the other. However, if earnings in 1961 or 1962, aided by an improving economy, recover to the \$4.44 per share earned in 1959 (vs. \$3.46 in 1960) the stock offers some appeal based on its building program and its well-covered dividend.

Neisner Bros. (13½). In an effort to stem a general decline in per-share earnings from the \$2.00-\$2.50 level in 1950-53 to 82¢ in 1959 and a depressed 18¢ in 1960, Neisner has embarked on an aggressive store building program with emphasis on shopping centers in growth areas and on self-service stores. Most of the present stores are located in the heavy industrial areas of the Midwest. The company is now expanding into Florida and Texas, and has already built 25 new stores in the last two years. While this stock, with its regrettable record, must be considered speculative, the store-building program is sizable when compared to the relatively small base of 170 stores, and could some day materially benefit earnings.

J. J. Newberry (46). Earnings should make a partial recovery from the \$2.42 per share in 1960, which was down from \$3.32 in 1959. Some of last year's non-recurring expenses connected with new warehouses will be absent this year. Small acquisitions have helped to expand stores, and the company is moving ahead with its program to build shopping center stores and improve existing stores. However, the stock, one half of which is owned by family interests, seems fully priced in the mid-forties.

Woolworth's Attraction Not Limited to New Discount Scheme

F. W. Woolworth (81). We have gone into some detail, earlier in this story, regarding recent developments in this situation. Investors are eagerly awaiting more information regarding the

company's plan to establish the country's largest discount chain and it is interesting to note that the company is planning to spend some \$150 million over the next five years to expand and improve the variety chain. While this \$30 million per year average is somewhat below the \$38.6 million average capital outlay made over the last five years, it is significant that the program regarding variety stores is still ambitious. With earnings per share of around \$5.00 likely for 1961, and the record in 1960 showing relative stability rather than weakness typical of so many companies, Woolworth has a firm base upon which to build. (1960 earnings were \$4.84 per share vs \$4.98 in the generally good year 1959.)

On the record the stock is a sound value at little more than 15 times earnings and a yield of 3.0%. The plan to enter the discount field is a new plus factor, and so is the astronomical market value of the company's investment in English Woolworth.

END

To What Extent Is Run-Up In Liquors Purely Seasonal?

(Continued from page 377)

investment in this field.

The Pharma-Craft subsidiary manufactures proprietary drugs and toiletries.

Schenley—With the strike and other problems that cut deeply into fiscal 1960 earnings behind it, Schenley Industries should show a good recovery this year. The company, which is the third largest distiller, is well diversified both within the beverage field and in other activities. In addition to distilling and importing a full line of spirits, Schenley is an important domestic wine producer. Ownership of 200,000 shares and warrants to purchase 350,000 more shares of Pabst common affords an interest in the brewing industry. Foreign liquor interests include control of Seager, Evans, a distiller with operations in Great Britain and other countries.

Non-liquor activities embrace the production of proprietary drugs, livestock feeds, and cooperative. Schenley holds 31% of the stock of Radiation Applications, Inc., a small research company,

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as well as 120,000 shares of Rex-all Drug common received in exchange for Schenlab Pharmaceuticals.

Schenley was known to have one of the largest inventories of aged whiskey. With the bonding period extended to 20 years, the company will be in a good position to market older, premium-priced beverages in the future.

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pany has remained exclusively a liquor company, with excellent results. Earnings advanced in every year since 1952, and based on interim results a further gain is probable this year. American produces a full line of beverages and imports Scotch and Irish whiskeys. Concentration on bourbons and straights allowed the company to take full advantage of the growing demand for these types. The company was also one of the first to participate in the extraordinary growth in vodka consumption.

There are only 955,194 shares outstanding. The stock has risen approximately 50% this year on moderate volume.

Brown-Forman Distillers Corporation is one of the leading independent distillers. Production has been largely of bourbons and straights. In addition, the company imports Scotch, wines and liqueurs, including the Bols line of beverages. Brown-Forman also manufactures Bols products under license in this country. In February 1961 the company became exclusive U.S. distributor for the Fratelli Gancia line of Italian wines. A subsidiary, Brown-Forman Industries, manufactures a limited line of photographic chemicals and supplies.

The company has benefited from the growth in consumption of straights and bourbon. A recently introduced 86 proof bottling of Old Forester has met good acceptance.

Publicker Industries is without question the most speculative stock among those reviewed. With earnings of \$0.46 per share, 1960 was the company's first profitable year since 1956, when a nominal 1/2 cent was earned.

Liquor sales account for about half of volume with industrial alcohols and chemicals, distillers' feeds, vitamins and a tanker charter service providing the balance of revenue.

Publicker is the only major manufacturer of industrial alcohol still using the fermentation process. Elimination of Cuban molasses supplies recently necessitated a cutback in alcohol production. Currently, Publicker is negotiating with the Department of Agriculture for surplus corn to replace the molasses. The outcome of these negotiations will have an important influence on 1961 earnings.

END

Gauging The Business Outlook

(Continued from page 363)

throughout the business community—and in the canyons of Wall Street. This is all to the good, since optimism is one of the necessary ingredients of prosperity. Nevertheless, the cautious observer must take note of the simple fact that until optimism is translated into concrete actions such as increased capital expenditures and rebuilding of inventories, it has no effect on business activity.

So far the evidence of concrete action is small, despite the encouraging signs. Investors, however, are advised to maintain large portions of their investment funds in liquid form until there is greater certainty that the present upturn is more than the usual springtime pick-up in business activity. Past studies of stock market action support the validity of this approach. In most past periods of business recovery, the market turned upward approximately 6 months before business—as it may have done in late 1960. However, in all cases where the recovery was sustained, the biggest movement in stock prices came after the business upturn had been confirmed. The lesson is obvious. If the current upturn is a false alarm the market is near its top. If business is to re-enter a boom there will still be time to make commitments after it has been confirmed.

END

For Profit And Income

(Continued from page 383)

enterprises. Among the leaders in farm equipment and motor trucks, it also makes industrial tractors, engines, road-building equipment and other products. Well integrated, Harvester makes its own steel and has extensive raw materials resources. Finances are strong, cash holdings large. Profit fell to \$3.40 a share in the fiscal year ended last October 31, from the prior year's record \$5.66. Despite a poor start, but with a slight improvement in the fiscal second quarter—the quarter ended April 30—a small gain is possible this year. In any event, sharply higher annual-rate earn-

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Two New Forecast Selections That Should Add To Our Profit Record

Our analysts have just selected for purchase two promising stocks where rising earning power and bright 1961-62 prospects should help to foster healthy Capital Growth.

A SPECIAL SITUATION — In New Growth Phase

— Still selling under its 1956 high

A leader in its industry — well financed and managed — this company increased earnings 18% in recessionary 1960 and topped this with a 70% upsurge in first quarter 1961 earnings. The amply covered dividend yields 3.3% in cash with a stock dividend to bring the total over 5%. Higher efficiency, expanding operations at home and overseas, promising properties and special interests combine to give this stock unusual appeal.

NEW DYNAMISM FOR THIS ISSUE —

Still selling about 10 times earnings

This is a most unusual situation — where earnings soared 56% in 1960 and 70% in the first quarter of 1961. The current dividend represents a 3.4% yield but a hike in this payment is likely soon since it is being earned 3-times over. New management has sparked efficiency in all sectors of corporate activity including diversifying into new fields. This stock should prove a rewarding commitment for income and appreciation.

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American Chicle, American Tobacco, Reynolds Tobacco, Int. Tel. & Tel., Sperry Rand and other sound Forecast issues have increased subscribers gains, and we expect our audit at the end of the second quarter to prove gratifying.

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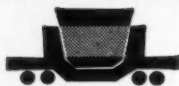
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Interlake Iron

DIVIDEND No. 68



Interlake Iron Corporation, Cleveland, has declared a dividend of 40 cents per share on its common stock, payable June 30, 1961, to stockholders of record at the close of business June 16, 1961.

Maker of Iron and Ferroalloys

ings are ahead. Around 54 on a secure \$2.40 dividend, the stock is little under its 1959 all-time high of 57 $\frac{3}{8}$, but it should be among the first of the major cyclical-type stocks to get to new highs.

Ford

Ford Motor has reacted from recent high of 91 $\frac{1}{8}$ to about 86 at this writing, following announcement of nearby public offering of an additional 2,750,000 shares from the holdings of Ford Foundation. This will be the fourth public offering of Foundation holdings since early 1956. In the present environment, its effect on the market will be unimportant and probably is already "water over the dam." We still think this issue will sell appreciably above 100 in no great time.

END

As I See It!

(Continued from page 353)

beyond the scope of NATO.

But he could not, of course, concede the full extent of de Gaulle's demands—French veto power over American use of nuclear weapons on any occasion.

Nevertheless, the young President appeared to have made considerable personal impression on the old General. This personal rapport may lead to solution—or some diminution—of Franco-American differences which plague the Western alliance and render it less effective than it might be.

In Sum

Kennedy's grim report to Macmillan in London on the Vienna

talks may have the effect of stiffening the British attitude on some points. American officials hope Macmillan and his advisers may now be less inclined to think that Berlin is a negotiable issue. It's also possible Britain will be willing to go farther in Allied military contingency planning on Berlin.

● The disclosure at Vienna that Khrushchev plans no immediate crisis in Europe is small comfort when considered against the extreme rigidity of his long range plans.

● His reaffirmation of Communist intentions to continue to promote "nationalistic" revolutions in underdeveloped areas promises continual trouble for the West in those regions.

If the Vienna meeting lessened the possibility of War by "miscalculation"—as Kennedy says it did—the problem now is to deal with the struggle on a more realistic basis.

The post-Vienna picture is not pretty. It's up to Kennedy to take steps to meet the danger he now understands in all its magnitude.

The country undoubtedly will support him—all the more eagerly if he tightens up the sometimes uncoordinated efforts of his administration so that the additional sacrifices the American people may be called upon to make are not diluted in their effect by dreamy mismanagement and maladministration.

The magnitude of the danger should be clearer now—better understood.

The nature of the intensified American effort required has yet to emerge.

END

Answers to Inquiries . . .

(Continued from page 389)

and specialty bearings.

Plants are located at South Bend, Indiana; Torrington, Connecticut; Westfield and Orange, Massachusetts; and Walhalla, South Carolina. A Canadian subsidiary operates a plant at Bedford, Quebec. Non-consolidated foreign subsidiaries operate plants in England, Germany and Italy.

The company has a good record of growth in sales, which have increased from \$33,590,000 in fiscal 1950 to \$67,550,000 for the

year ended June 30, 1960. In recent years, earnings have shown growth, rising from a low of \$3,370,000 or \$2.07 per share in 1954 to a high of \$7,020,000 or \$4.31 per share in 1960. Thus, earnings in the 1960 fiscal year showed a good gain over the \$3.39 per share reported for the year ended June 30, 1959.

Due in part to the recent business recession, the latest earnings, for the 9 months ended March 31, 1961, declined moderately to \$2.95 per share from \$3.29 a year previous. In the recent March quarter, earnings amounted to 91 cents per share, as against \$1.20 a year ago. The regular quarterly dividend rate is 40 cents per share. Also, a 40 cent extra was paid on July 1, 1960, and a year-end extra of the same amount will be paid on July 1, 1961.

Over the longer term, it is believed that the demand for anti-friction bearings will continue to grow. Also, the company's business is aided by a sizable replacement demand for machine needles. The stock has advanced from a low of 37 $\frac{3}{4}$ this year to date to a recent high of 55, and is currently selling at about 54 $\frac{3}{4}$, on the New York Stock Exchange. While not under-valued, we believe that this issue is fairly priced and that its outlook is reasonably good. Therefore, we would recommend retention of this stock.

END

Book Reviews

1961 Survey of Oils

Tomorrow's growth pattern for Canada's rapidly maturing oil and gas industry is based on expanding Canadian markets, and tapping U.S. markets, says the 1961 edition of the Financial Post's Survey of Oils.

● Gas is the fastest-growing part of the industry, with major expenditures under way for new pipelines, processing plants and other facilities.

● In oil, the pattern for market growth has been set by the government's pressure on the industry to supply the Canadian market as far as the Ottawa valley.

The 216-page survey reports on thousands of companies active and inactive in Canadian oil and gas developments. Details on the active companies include balance sheets, directors, property holdings and other information useful as reference.

The Financial Post, Toronto, Canada. \$4.00

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Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommenda-

tions in companies with unusually promising 1961 prospects and longer term potentials.

Close Continuous Supervision:

Thereafter—all your securities are held under constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

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Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

*F*ull information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

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